Credit

AND FINANCIAL MANAGEMENT

Photo by Leon Cantrell, Nashv

July 1948. Credit Management for Profit—See Page 4

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National Association of Credit Men
Bowen Building, 815 15th Street, Washington, D. C.

Credit

AND FINANCIAL MANAGEMENT

Contents for July, 1948

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Politics Without Abuse

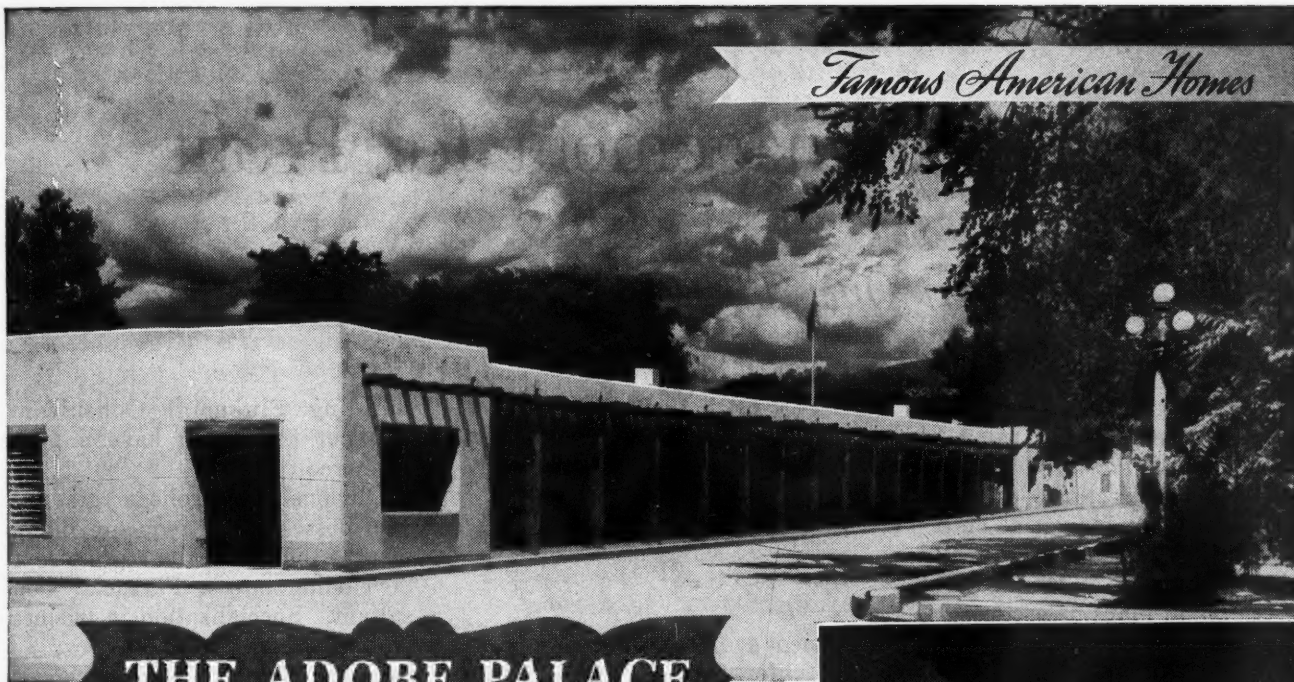
The beginning of our political campaign is not too auspicious. It is not conducive to good government to have two of the branches of government accuse each other of dereliction of duty. Our people lose faith in government when they see and hear such accusations.

The framers of our constitution very wisely provided for three departments, namely, legislative, executive and judicial. Dividing responsibility in this way made certain that there would be the necessary checks and balances so as to ensure an efficient government. Our government has lost its efficiency as each branch has permitted encroachment on its particular constitutional responsibility.

A nation that boasts of its leadership should pause to consider how it attained it. Such progress as we have made in the past has been due to excellent team work. That is as the framers of the constitution desired. There can be differences of opinion and these differences should be frankly and openly expressed. These differences, however, can be expressed no less forcefully without accusing one branch or the other of bad faith, incompetency, or rebellious attitudes. If you want to tear down the greatest government the world has developed in the short space of two centuries, just sow the seeds of distrust in one or the other of its departments. In the end, it will lead to a distrust of government in its entirety. Let us hope that our candidates and the political parties will check this early tendency, so apparent in the news of the recent weeks.

HENRY H. HEIMANN,
EXECUTIVE MANAGER

Famous American Homes

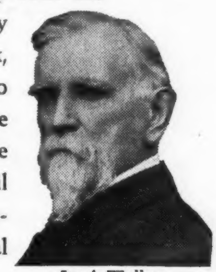


THE ADOBE PALACE

"Here Conqueror and Conquered Live Again"

SPANISH grandees . . . Franciscan friars . . . Indian warriors . . . frontiersmen . . . soldiers of many nations have passed in history's long pageant through the portals of the Palace of the Governors in La Villa Real de la Santa Fe. The massive adobe walls have witnessed scenes of bloodshed and terror no less than ceremonies of regal pomp and splendor.

The palace was built in 1610, the year Santa Fe was founded, and served as the governor's residence and headquarters. In the early days of Spanish rule Indians were tried there on charges of witchcraft and rebellion. Here four Indians found guilty of murdering missionaries were hanged and their alleged accomplices were whipped and sold into slavery. In 1680, provoked by these and similar acts, an Indian uprising forced one thousand of the townspeople to seek refuge in the palace where they withstood several days' siege. Then the Indians cut off the water supply, the livestock in the patio began to die and the Spaniards' suffering became almost unbearable. Though the governor was able to rout the Indians temporarily by a surprise attack, he was compelled to abandon the province and for twelve years the Indians held sway until New Mexico was reconquered by General Diego de Vargas.



Lewis Wallace

During the Spanish rule, rebellious Indians and others were imprisoned in the palace dungeon, including a number of Americans charged with entering the province for unlawful purposes. Among the latter were David Meriwether, later territorial governor of New Mexico, and Major Zebulon M. Pike.

After being occupied for more than two centuries by the Spanish and Mexicans, in 1846 the palace again changed owners when General Stephen Watts Kearny conquered New Mexico without firing a shot. During the American territorial period which followed, one of the most noted governors was General Lewis Wallace who wrote part of Ben Hur while a resident of the palace.

The Ecclesiastical Room, showing many early church furnishings

Now occupied by the School of American Research, Museum of New Mexico and Historical Society of New Mexico, this oldest government building in the United States continues to stand as a monument to the colorful history of the Southwest and a shrine of the several cultures, races and flags which have known it.

* * *

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The Rito de los Frijoles Room

Credit Management for Profit

Part One: The General Principles

by J. L. WOOD
Assistant Treasurer
JOHNS-MANVILLE CORPORATION
New York

The purpose of industrial enterprise is the earning of profits. Every division, department, section, unit, or employee of any industrial enterprise affects directly or indirectly the profit result. Management lays the broad plans of production, marketing, research, selling and finance. The Production Department translates these plans into more and more production at lower and lower costs. Marketing analysts develop data and plans for the most effective distribution of the production. The Sales Department organizes its selling tools and manpower to cover the markets most effectively. The Research Department produces new products and new uses and improved quality of old products. The Finance Department provides the funds necessary to carry on all activities of the enterprise and the safeguarding of the profits.

Every individual—the typist who protects or enhances the dignity and repute of the enterprise in the neatness and form of the letter she types; the workman whose interest in his job and his employer insures the quality of its products; even the sweeper whose efforts contribute to better working conditions, all play their parts in the attainment of the primary objective—profit.

Credit Department and Profits

The Credit Department which recognizes the fact that it is part of an organization whose goal is profit and which directs its efforts toward that end, can be an important factor in its achievement.

As trading grew into commerce and commerce into industry, credit became an important instrument in the rising flow of exchange of goods and services and the Credit Department evolved. For many years, and unfortunately down to the present day in some quarters, the Credit Department was concerned only with the prompt collection of accounts and the prevention of losses. With such an aim, the sight of the profit target was completely lost and the Credit Department became in effect a brake upon profit momentum.

Without losing sight of its duty to *safeguard* profits, with its mind firmly fixed upon the purpose of the enterprise, today's Credit Department can and does play an important part in adding to as well as safeguarding profit.

Begin with People

This is accomplished in several ways. It begins with the selection of the personnel. Credit Men are selected for their qualities of sales instinct and sales presence; for their qualities of extroversion, of judgment and analysis; their ability to express themselves easily by both the written and spoken word; their native intelligence, and finally the adaptability to meet and be at ease with every strata of humanity from the tycoon to the horny-handed.

A Credit Man of that type is not made—he is born. While the essential qualities will naturally vary in intensity as between individuals, all of them must be present in some degree. With them, plus years of technical training and experience, you have the foundation of a profit-building Financial Consultant. Without them, you have a lower case credit man.

Obviously, a college graduate who possesses the requisite fundamentals offers the best promise of developing into a Financial Consultant. Specialization in business administration, business law, accounting and applied psychology are all important foundations on which to build. The self-reliance and poise which are usually gained from scholastic and extra-curricular pursuits also aid materially.

It must not be assumed, however, that an A.B. or B.S. is a *sine qua non*, nor that even a Phi Betta Kappa key opens all doors to success. It is the education itself—the preparation for the future—rather than the degree, which is important and many a non-college man who has improved himself through constant study and observation mounts the ladder of success with equal facility.

Judging from the Interview

A more than fairly accurate summation of the success factors may be obtained in the employment interview. Appearance and presence are, of course, visually apparent, while clarity and force of speech are subject to auditory judgment.

But a great deal more can be learned through a few seemingly casual questions. What sports is he interested in—as a participant; a spectator? What extra-curricular activities were pursued in college? Does he like the theatre, bridge, music? What does he read? What hobbies has he? Of what clubs or associations is he a member? What is his life aim?

Let's take a couple of hypothetical cases and weigh them.

George A. is a broad-shouldered

six-footer, blonde and good-looking. He wears his hair in crew-cut fashion, and his sport coat and contrasting slacks are set off with a colorful bow tie. He is relaxed in the arm chair with his long legs crossed.

George has an A.B. from an Eastern university. He played varsity football and basketball, and a gold football dangles from his key-chain. He majored in English literature. He was president of the local chapter of his fraternity and was voted the one who had done most for the school.

His manner is friendly, even breezy. He prefers movies to the legitimate stage; poker and gin rummy to bridge. He has no particular hobby but is a member of the Divot Golf and Country Club. He reads the newspapers and a couple of popular weekly magazines. While he doesn't get time to read many books, he likes Hemingway and Lewis. He enjoys the Dorsey and Goodman orchestras, the pianos of Frankie Carle and Carmen Cavallero. He finds the music of Herbert and Strauss pleasant and relaxing.

His life aim is 'to become associated with a large and successful organization where he can learn the business and progress through merit.'

—To Others Hard

Fred B. is a little under six feet tall, of good, if not robust, physique. He's good-looking in a rugged, friendly way. There are tiny wrinkles in the corners of his steady eyes.

Fred went through a small college the hard way. The death of his father in his sophomore year put heavy financial burdens on his family but he managed to earn enough money between courses to squeak by with an A.B. degree, majoring in Accounting, with courses in Business Law and Applied Psychology. He's now taking an extension course in a local university in Money and Banking. He hadn't time to go out for varsity sports but he likes both football and baseball as a spectator. He edited the Senior Year Book, and was a member of the debating team.

He likes the theatre, in fact his major hobby is amateur theatricals as a member of a Little Theatre group. He is fond of bridge but occasionally enjoys a ten-cent limit poker game with the boys. He likes music. While he prefers Debussy and Tschaikowsky to Duke Ellington, he also enjoys Berlin, Porter, Kern and Romberg, and even likes an occasional joust with jive. He is a member of no club other than the Little Theatre group, but plays golf on public courses. He likes to read but has no favorite literary sphere. He reads the newspaper editorials and the sports pages with equal interest, and his book consumption ranges from biography to whodunits.

Fred's life aim is to become a financial executive and he is willing to make some early sacrifices to gain useful experience.

Which to Choose?

Now, George A. has many favorable attributes. He has an engaging and informal personality. He has the self-confidence born of his athletic pursuits. He is used to leadership, as witness his presidency of his fraternity. George will probably make a good salesman or a politician.

But George skims a lot of surfaces. He prefers the movies and poker to the stage and bridge, apparently favoring the less mentally-stimulating activities. His literary and musical tastes are narrow, which may indicate a lack of broad concepts and he does not appear to have prepared or to be preparing himself for a definite goal. He seems to feel that, if he can get in on the ground floor of a successful business, he can crack through the line or around the end as he did in college.

Fred B. had one strike on him when his father died, but he showed determination and fixity of purpose in completing his college course. While not an athlete, he shows a normal, healthy liking for football and baseball. He probably has good inductive and conductive reasoning since he liked to debate, and his debating experience has given him poise and clarity. He likes people; he can work with a group and at the same time express his own personality as shown by his interest in amateur theatricals. His tastes in literature and music

"I don't quite know how to ask the old boy for a promotion- my next move would be into his job"

are catholic, showing a wide range of interests. He likes the mental stimulus of bridge but is 'one of the boys' with his poker.

His approach to life is serious, but he doesn't take himself too seriously. Those corner-of-the-eye wrinkles are smile-born. He has a well-defined life-aim and has directed himself toward his goal with his early education, and he's continuing to add to the learning which is tailored to fit his ambitions.

Fred, therefore, seems to have more of the qualifications for the moulding of a Financial Consultant than has George.

Consultant Builds Business

With such an organization of Financial Consultants, the work of the Credit Department becomes not a mere matter of sheep-from-goat separation, but a careful study of ways and means to use credit and financial service to augment sales and profits. Thus, every order becomes not something to weigh in the yes-or-no scales, but a fresh opportunity to exercise judgment and ingenuity in realizing the potential profit which it carries. The measure is not an infinitesimal percentage of loss, but rather how great is the volume of sales—and profits—which can be serviced with a *reasonable* percentage of loss.

All, or nearly all, credit extension involves some risk. The Financial Consultant exercises his judgment and ingenuity in devising ways and means of minimizing the risk while multiplying the profit. He renders a service not only to his employer but to the customer. He does not chain himself to his desk. He becomes acquainted with the customers whom he comes to look

(Continued on Page 27)

Is The 2 to 1 Rule Adequate

A Rule of Thumb for the Current Ratio

Is there a mathematical rule for determining the approximate minimum working capital needed for the financial health of the average sized merchant? Such a formula would give an answer to the question as to whether or not the owner has the necessary investment in current assets, considering the expected volume of sales and the intended amount of current credit carried. It affords an answer to one of the first questions in credit granting: "Is the borrower too heavily extended on the inside equity?" Naturally, no hard and fast rule can be stated that fits all cases and circumstances of merchandising and special personalized credit terms.

The discussion which follows reviews the ratio of current assets to current liabilities as a guide to this phase of credits. It goes further in the analysis and attacks the problem of the current ratio from the standpoint of relative turnover rates of assets, compared to the length of credit terms granted to the borrower, as an approximation of the sufficiency of paid-in capital of clients.

Is the 2 to 1 Ratio Adequate?

Some writers and not a few credit departments tend to accept the conventional two-to-one ratio of current assets to current liabilities as a safe rule to follow, in so far as they base credit on the strength of financial statements. If a merchant is deemed a good "personal" risk and if his cash, merchandise, and current receivables are better than 200% of his current debts, he is often rated a "safe" risk. However, if his balance sheet shows something less than a two-to-one ratio, his rating is often reduced and in many cases he is refused credit.

by HOMER E. GREGORY
Professor of Management and Accounting
UNIVERSITY OF WASHINGTON
Seattle

But is this rule of thumb measure of the purely business risk a safe one to follow? Cannot the working capital requirements of a business be planned and that of a going concern tested as to its adequacy, with a greater degree of mathematical precision? The two-to-one rule used occasionally at the present time indicates the psychology of the financial liquidator. Credit departments which apply it to a given case naturally think of the borrowing client, not so much as a continuing successful borrower, but more as a possible bankrupt. They are thinking in terms of salvage, not of financial facilitation. What will be the ultimate value the credit man asks, of the borrower's inventory, receivables, and miscellaneous assets at a forced sale, or under a declining market?

Working Capital Requirements

But, on the contrary, the real emphasis is not, "How much can the assets shrink before creditors lose?" but, "Has the merchant a sufficient investment in his business?" Will his normal receipts pay all debts as they fall due? The credit problem essentially is one of financial planning, not of salvage. It is true that the possible shrinkage in the current property items must be taken into consideration when credit is extended by wholesalers or banks. But the point is that if a proper ratio of inside equities to outside equities in current assets is insisted upon by credit men, one of the first and most prolific causes of failure will have been removed.

In order to successfully finance a concern through a depression, the time when credit terms of bankers and wholesalers are more strictly enforced, the financial manager should expect his creditors and his banker to "carry" only that portion of his average inventory and accounts receivable which the business itself will pay out within the time limit of the credit terms. This is equivalent to saying that to be perfectly safe a business must be completely self-liquidating; that the current collections must pay current outlay of all kinds, including bank loans. In actual practice, naturally, no such rigid rule is followed. Nevertheless, the relationship existing betwen the rate of turnover of current assets and the credit terms of creditors is a pervasive factor in setting investment needs.

The critical factor is found in the relationship between the rapidity of turnover of current assets and the rapidity of the average rate of turnover of the payables (length of credit terms granted by bankers, wholesalers, and jobbers). In any business where the assets "turn" more slowly than the liabilities, there will always be a shortage in the receipts from sales when it comes time to meet debts. The "payable" cycle will have been completed and the full amount of debts will be due, whereas the assets cycle will have been only partially completed. It is self-evident that the shorter the credit terms granted to a firm by creditors, if the turnover of current assets remain the same, the more money must be invested in the business. A merchant who sells for cash and has a 10-day credit extended to him, must pay his bills more promptly than the man with 60- or 90-day credit. The former

cannot rely on the collections from sales to pay current liabilities to as great as extent as can the latter; not only must he pay his bills more promptly but he must own outright a greater percentage of his current assets.

Investment to Turnover Rates

On the other hand, the more rapid the turnover of his merchandise stock and receivables, theoretically the smaller will be his necessary investment. A merchant who is granted 60-day credit, for example, may be able to turn his stock-in-trade into cash completely within a 30-day period. The merchandise stock will turn twice before his bills fall due. If the sales volume is maintained, renewal of his stock on account at the end of 30 days need cause him no worry, as it likewise can be turned into cash before payment falls due. An investment in working assets will be required here only if the conditions change, either through slowing of the stock turn-over caused by seasonal variations, etc., or through the shortening of the credit terms extended by wholesalers.

If, then, the business is thus self-sustaining, what becomes of the popular two-to-one liquidity ratio? Has it any meaning other than a desire to compel the merchant to insure his stock to at least one-half of its value for the benefit of creditors? But why 50%? Some merchandise shrinks 75% and even more at forced sales.

Turning now to the other extreme, take the case of a merchandise stock turnover of twice yearly, coupled with a credit extension of 10 days from wholesalers. If it requires six months to sell an equivalent value of entire original stock, and if it is customarily repurchased as sold, and if the cost of the merchandise must be met in 10 days, the owner must invest an amount equal to far more than one-half of the average inventory as a matter of financial necessity.

Required Current Ratio

It follows from the above illustrations, that the necessary investment in working or current assets may vary from practically 0%, in such concerns as public utilities and railroads, to 100%. Stated differently, for budgetary purposes, the ratio of liquidity may vary in successful going concerns from $\frac{1}{4}$ and $\frac{1}{2}$ to 1 ratio, to practically a 100 to 1. The former indicates the negative working capital found in a self-liquidating business, where all financing is done by the creditors made possible by a very rapid turnover of current assets. The latter indicates a virtual ownership of the entire business by the proprietor with little or no extension of credit due to the great disparity in the rates of turnover.

A typical retail store, the annual cash sales of which are $240,000, which are fairly evenly distributed throughout the year, with a gross trading profit on sales of $33\frac{1}{3}$%, and a merchandise turnover at cost of twice yearly, would have a cost of sales of $160,000, and an approximate average inventory of $80,000. If the merchant, for example, to start the business bought the entire inventory of $80,000 on an average of net 60-day terms, and sells for cash, and if his overhead, including the salary of the owner, absorbs the gross profits, the receipts from the cost of sales collected during the 60-day period will be approximately one-third of $80,000 or $26,667. This latter amount will be the only sum available for payment on the indebtedness of $80,000. The gross trading profit on sales as noted above, is required to pay running expenses and cannot be used for the purpose of reducing the debt. Hence the balance or approximately $53,333 must be invested if he lives up to his assumed credit obligations.

Within the 60-day credit term extended to him, the total sales on the above mark-up basis will amount to $40,000. Of this amount $33\frac{1}{3}$% or $13,333, will be required to pay overhead expenses, while the balance, $66\frac{2}{3}$%, or $26,667, will be the collections available for payment on account. However, the full amount of the invoice is $80,000 and since only $26,667 will have been collected at the end of the credit term and applied toward the debt, the deficiency of $53,333 must be met by the owner. Within the 60-day period of credit extension,

The Salesman's Credo

Sell the idea that man is an individual, not simply a part of a group. Sell the idea that permanent security, true success and happiness are things that no one can give you. They can be gained only through hard work, self-reliance, self-confidence and self-respect.

Democracy stops being democracy and becomes something dangerous when a few people are ruling the country, either themselves or through agents they select. Sell the idea that it is not only a citizen's right to vote under a democratic system, it is his responsibility. No one can make him vote nor tell him how he must vote.

Sell the freedom that you now have to go from place to place without a permit from the Government. Sell the freedom you have to worship as you see fit, the freedom you have to criticize the way you are being governed and to change the government if you think it necessary.

Sell the freedom you have to work where you want to work and when you want to work. Sell the freedom you have from the breath of the secret police down your neck.

Demonstrate that government or private monopolistic controls on wages and prices, based on arbitrary standards or parity, can result only in the destruction of wealth and shortages for everyone.

Remind men of the good things they have and don't let them forget that they get them through their own individual efforts in a free society. Sell the system you know is successful, and show how it has succeeded.

—John S. Coleman, President,
Burroughs Adding Machine Company

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BURROUGHS CLEARING HOUSE

the merchandise stock has made one-third of its completed cycle. If the stock is replenished throughout the period and kept up the average to $80,000 the credit which this concern can carry at all times will be one-third of the average stock-in-trade, or $26,667. If a lesser amount is invested and the average inventory maintained under the above assumptions, the creditors will be obliged to "carry" the merchant until such time as net profits make up the difference between the safety limit and the credit extended. Sales of the more rapidly turning merchandise lines naturally would liquidate a like portion of the debt, but the remainder would await sales of the slower lines.

Statement of Credit Rule

To state the proposition mathematically: in a cash business within a stated period of time, the per cent of the trading assets which a concern can successfully carry on credit, is in direct proportion to the ratio of the turnover of the trading assets to the average rate of turnover of the payables. Current assets that turn on an average of three times per year equal to once every 120 days as against a turnover of 8 times per year for payables equal to net 45 days, could successfully carry a debt equalling three-eighths of the value of the inventory at cost figures. The required investment of working capital would be the balance of five-eighths of the amount of merchandise on the shelves plus other assets carried. A shortening of credit terms would demand an earlier payment to creditors and in greater amounts. Conversely a speeding of the inventory turnover would increase funds for creditor payments and lessen the owner's needed capital.

The formula naturally cannot be taken as a sole guide for judging credit risks as shown by financial statements; it does reveal important upper and lower investment—credit limits not available in the current ratio as such.

The Asset Cycle

It might be questioned whether the generalization applies to a going concern where purchases, receipts from sales, and payments on account are made continuously throughout the period. The average business does not purchase once a month but many times, and it might appear that current receipts from sales could be applied to a current debt. The answer is that so long as a time lag exists between the date of a purchase and its final collection from the trade a portion of the cost of the purchase must be met by the proprietor. Current receipts do not pay for current purchases. Let us take the analysis a little further.

If a single lot of goods requires six months period to completely turn into cash and if the invoice must be paid within two months, the sales if made ratably through the credit cycle of 60 days, will pay off only 33⅓% of the total amount due. If the receipts from other lines be diverted to meeting the remaining 66⅔% due on this invoice, from what source can money be secured to meet the other obligations? To shift receipts merely delays payment on the invoice which is deprived of its payment. So long as the debt falls due before it becomes self-liquidating, delayed payment to creditors equal to the deficiency will result. The use of bank loans, etc., is discussed in the concluding paragraph.

Any miscellaneous assets, such as prepaid expense items, secondary reserves, cash, etc., must be financed by the owner and carried by him in addition to the prorated amount of the merchandise, receivables carried by creditors.

The above illustrations were based upon the assumption of a cash business. If sales are made upon credit a new complication enters into the situation, namely, the added burden of carrying the customer accounts. The proprietor now has three separate investments and distinct factors to note: (1) the overhead expense fund which is being advanced to pay operating costs and charged currently to the customers' accounts as gross profit; (2) the cost of merchandise also represented in the accounts receivable; and (3) the value represented in the unsold merchandise or inventory at cost. Each of these distinct "funds" "revolves" (or turns) at its own rate, the expense fund at one rate, the cost of merchandise sold to customers at a different rate, while the merchandise inventory revolves at a rate different from the other two.

Turnover Rate of the Receivables

The current expense fund, not including such items as prepaid insurance, rent, etc., represented in the mark-up of accounts receivable in a wholly credit business (profits here ignored for illustrative purposes), is collected from customers.

The rate of turnover of the receivables-at-cost, like the expense fund, is dependent upon the rate of collections, which in turn is governed by the length of credit terms extended to customers and the effectiveness of the credit department in making collections.

The rate of turnover of the merchandise inventory is different from the rate of turnover of receivables-at cost; each is governed by its relative size compared to the cost of sales. Where credit sales are made the merchandise simply "turns" into receivables. The greater the cost of sales charged to customers within a given period the more rapid is the revolution of the inventory. Hence a great discrimination is needed in approximating a rule which will indicate the working capital requirements where all sales are made on credit. The slowness or the rapidity of the turnover of the three separate funds will determine the size of the investment, hence the current ratio required by the owner. The faster the turnover of the receivables and inventory as noted previously, the less the required investment; the slower the turnover the greater the needed investment and the less the creditors should be expected to carry.

The Financing of Customer Credit

The problem thus simplified resolves itself into a question of the relative rates of turnover of the receivables-at-cost plus merchandise inventory, compared with the average turnover rate of payables. The critical factor now to be considered is the added number of

(*Continued on Page 28*)

It Can Happen Again

Vesty Gates Ponders on Problem Parents

Vesty's young assistant has received a consolidated statement from a holding company which wants Vesty's firm to extend credit to one of its subsidiaries. Last month Vesty pointed out that a healthy-looking statement from a parent company does not necessarily indicate that the children are equally healthy. He continues his argument below.

by HELEN M. SOMMERS
Credit Manager
TROJAN HOSIERY MILLS
Indianapolis

AUTHOR'S NOTE: All persons and places mentioned in this article are purely fictitious. Any resemblance to people or firms is purely coincidental.

"But," Alice objected, "It's fantastic to think of two operating companies with exactly the same financial statements. Show me something real."

"That was merely to show you that after parent company assets are excluded, the remaining picture can be less favorable than the consolidated picture might indicate, even when assets are evenly divided. But now, proceeding from that basic fifty-fifty statement, we'll talk about more realistic possibilities."

He did some scratch-paper work on the side for a few minutes.

"Here," he said as he copied down the final items, "you might have this disposition of assets and liabilities, without even rearranging the capital stock."

"Here A is turning its inventory surprisingly well—but into sluggish accounts receivable. Say that as much as one-half of the sales are on credit. There is an average of four months' receivables on the books. When you consider that some of those accounts are less than thirty days old, that means that many of them are as old as, say, six months or more. There's doubtless dead timber there, and the asset's actual value is overstated. Of course A will be slow with its own payments.

"But B," he continued, "B is inventory-heavy to an almost disastrous state. If all sales were for cash, total income per month would be only $5,800 and after running expenses are paid, trade bills will be liquidated probably only at the rate of $3,000 or $4,000 per month.

"The truth is that these assets should be scaled down on both these statements. Obviously A has some uncollectible accounts and just as obviously B has obsolete inventory. B, in addition, is vulnerable to a market decline." He paused and smiled. "— is question #1 answered?"

"Adequately. You have proved that in a three-way consolidated statement presenting a favorable showing in itself, one or even two sides of the triangle can be unsatisfactory."

"And, of course," Vesty added to her summation, "that holds for bigger families of companies as well, only more so."

"But coming to question #2, Peter can't pay Paul in this case, but why can't the parent come across with that $8,000?"

"Maybe it could part with a little of it if it chose, maybe not. Remember that funds are needed to amortize a fifteen-year mortgage. That takes close to $3,000 for the year. There's interest at 4%. That's $1,600. There are taxes, say $500 or $600. Probably some items of upkeep, too. These funds might have been accumulated from rentals charged the operating companies, perhaps too high, perhaps just high enough to cover these fixed charges. And maybe cash represents balances just prior to the due-date of some of these commitments. Then, too," here Vesty's eyes narrowed, "stockholders of

Company A

Cash	$ 1,000	Accounts Payable	$ 10,000
Receivables	16,000		
Inventory	11,000	Capital Stock	23,000
	$ 28,000		
Fixtures	2,500	Deficit	- 2,500
	$ 30,500		$ 30,500
Sales for the year	$ 90,000		

Company B

Cash	$ 1,000	Accounts Payable	$ 15,000
Receivables	2,000		
Inventory	35,000	Capital Stock	23,000
	$ 38,000		
Fixtures	2,500	Surplus	2,500
	$ 40,500		$ 40.500
Sales for the year	$ 70,000		

some parent companies have been known to pay themselves dividends unwisely from paper profits of their subsidiaries. The angles and possibilities as to whether the parent company is willing and able to help are manifold. Nothing can be assumed."

"That, added to what you said in the beginning, pretty well answers question #2."

"There's this to be added, Miss Lert. When this inter-company assistance that you are so interested in does take place, you often get some pretty involved situations that obscure the true picture. Let me see if I can give you an illustration."

This time he was silent for some time while he busily scratched figures. Alice sat quietly digesting their conversation. Finally he came up triumphantly with the following:

Parent Company

Cash	$ 8,000	Due to B	$ 18,000
Due from A	10,000	Mortgage	40,000
Real Estate	60,000	Capital Stock	70,000
Investment in Subsidiary	46,000	Deficit	– 4,000
	$124,000		$124,000

Company A

Cash	$ 1,000	Payables	$ 10,000
Receivables	16,000		
Due from B	2,500	Due to Parent	10,000
Inventory	11,000		
	$ 30,500	Capital Stock	25,000
Fixtures	2,500	Deficit	– 12,000
	$ 33,000		$ 33,000

Company B

Cash	$ 1,000	Accounts Payable	$ 15,000
Due from Parent	18,000		
Inventory	35,000	Due to A	2,500
Receivables	2,000		
	$ 56,000	Capital Stock	21,000
Fixtures	2,500	Surplus	20,000
	$ 58,500		$ 58,500

"That's a miniature Samuel Insull," Vesty chuckled. "But it all fits into the frame-work of your original consolidated statement. Here, the parent company has withdrawn $18,000 from B in the form of a loan. In turn the parent lent $10,000 to A. Later B got overloaded with inventory and borrowed some cash from A. That kind of thing can go on until the threads of inter-relationship become more entangled than Hollywood marriage statistics. Any individual statement in these parent-subsidiary set-ups must be carefully examined for inter-company debt, and all such inter-company receivables should be disregarded in evaluating the assets. On the other hand, an inter-company payable should be regarded as a specially vulnerable liability that could draw that particular company into bankruptcy should the affiliate to whom it is owed go broke."

"And when swapping of funds goes on with such facility, it would be best to turn thumbs down, wouldn't it?"

"Certainly. You don't want a now-you-see-it, now-you-don't situation with your debtor's assets. And of course, Miss Lert, one of the advantages of separate statements is to bring these inter-company relationships to light. They don't show up on the consolidated statement."

"And as to my third question, about guaranties," Alice said, "I think I can now answer my own question. A guaranty by the parent is only as good as the individual financial strength of the parent and each of the subsidiaries. The collective statement is apt to be misleading."

"Now you know all the answers. All three of them, that is. And —," he reached for *The Mausoleum*, "just to show you that your Uncle Vesty didn't always know those answers himself, we'll have a look or —," he flipped the pages, "— this Suave Shop file from 1936. I happen to remember that the details are right down this same alley. We were hooked, as you see, for $1600.00."

Alice quickly produced the file. She loved Vesty's bankruptcy reminiscences, his honest humility about them and the sure way he had of putting his finger on the trouble-spot.

Vesty picked up the file.

"This company was called The Budget Shop until the father died and the son got ideas. He revamped the corporate set-up, leased new quarters, and put on an expansion and improvement program including oo-la! appointments in fixtures, fitting rooms, and store front. As things unraveled later, they in fact completely outswanked their customers. Some shop owners will indulge their ego that way, you know," Vesty chuckled. "There's the financial statement just eight months before their creditors reaped the wind."

Suave, Inc.

Balance Sheet, June 30, 1935

Cash in Bank	$27,362.00
Cash on Hand	9,463.00
Inventory	52,045.00
Prepaid	2,464.00
	$91,334.00
Accounts Payable	$25,164.00
Capital Stock	65,000.00
Surplus	1,170.00
	$91,334.00

Alice studied the statement, then looked up, puzzled. "That statement looks good to me. Of course you don't know the sales figures."

Vesty enjoyed her mystification. "Look at it again! Do you see any fixed assets?"

"Oh! Those fancy fixtures you talked about! Well ——?"

"When the old company was reorganized, two companies were formed: Operating company with capital of $65,000. Leaseholding company with capital of $125,000. The latter held the lease and equipped and remodeled the store and rented it to the operating company. The information given out was that they were two independent companies. On the strength of

(*Continued on Page 39*)

Suppose The Debtor Dies

Creditors Should Lose No Time in Filing Claims

by CARL B. EVERBERG

Attorney-at-Law

Boston

When a debtor has died a number of complications immediately arise as to the payment of a debt owed by him to a creditor prior to his decease. Though the deceased debtor may have been wholly solvent and liquid enough to have easily paid the debt before he died there is generally a long delay facing the creditor before he receives payment. This then is the first complication—the *delay* in obtaining payment.

The other complications are in some degree tied in with the same cause which produces the delay, namely the legal regulations for the administration of the estate of a deceased person. If a debtor has an estate it must nearly always be administered under the supervision of a court (called generally Probate, Surrogate, Orphans, according to various states) and in accordance with the provisions of law.

Administrators and Executors

Where a person dies without a will with an estate to be administered, a petition is filed for the appointment of an administrator. Such deceased person is said to die intestate—meaning without a will. If the deceased person leaves a will, a petition is filed to have the will allowed and to have an executor appointed. Such person is said to die testate. Depending on various circumstances the time consumed in obtaining these appointments varies, but in many instances the appointment is not obtained for several weeks after the filing of the petition.

A creditor having a claim against a debtor now deceased, should interest himself as to what person has been appointed as executor or administrator. Until his appointment there is no power in any one (officially) to deal for the deceased person's estate. Several states require the posting of notice of appointment in public places or the publication of notice in a newspaper. Creditors will ordinarily learn in due course as to whether a debtor is alive or not without any special notice since through the usual following up of the collection of accounts the fact of death will be disclosed by some one identified with the estate of the deceased.

Presenting the Claim

Having learned who the executor or administrator of a debtor's estate is, a creditor must next ascertain what is necessary, according to the requirements of the state where the estate is administered, to properly prepare and file his claim. The presentation of a claim is important. The statutes in the various states prescribe the time within which a creditor must file or present his claim. The requirements as to the time for presentment of claims and the consequences from failure to file within the prescribed time are almost as varied as the number of states.

A typical statute is that of Mass. G. L. C. 197, Sec. 1:

> "An executor or administrator shall not be held to answer to an action by a creditor of the deceased commenced within six months after giving his bond for the performance of his trust, unless such action is brought for the recovery of a demand which would not be affected by the insolvency of the estate" . . .

with Sec. 2 as amended:

> *"If* an executor or administrator *does not* within six months after the approval of his bond *have notice* of demands against the estate of the deceased sufficient to warrant him to represent such estate to be insolvent, he may, *after* the expiration of said six months, pay the debts due from the estate and shall not be personally liable to any creditor in consequence of such payments *made before notice* of such creditor's demand," . . . [Italics ours.]

So, if the executor and administrator does not have notice of a claim during the six months following approval of his bond, and he pays out the assets of the estate to those claimants of whose claims he did have notice, the creditor may, if there are not sufficient assets thereafter, go without any recovery.

Insolvent Estates

One of the purposes of the six months' requirement here is to enable an executor or administrator to determine whether an estate is solvent or insolvent. If the estate appears insolvent after notices of claims are in, the executor or administrator shall so represent to the court whereupon the court appoints commissioners to receive, examine and allow the claims. Again there is a limit for presenting claims to the commissioners of the insolvent estate. In the case of an insolvent estate there is, as in bankruptcy, an order in which claims are paid. Thus, taxes, wages under a certain limit, debts for necessaries under a certain limit, come each in its order, before general unsecured claims. If there is not enough to pay the creditors of any one class in full, that class will be paid ratably, but no class shall be entitled to anything until all of the preceding class shall have been paid.

The failure of a creditor to give notice of his claim during the six months' period may mislead an

executor or administrator into supposing an estate to be solvent (if in fact the presentation of the claim would have caused the estate to appear insolvent). Thus, if he, in ignorance of a claim not presented timely, pays out the assets to those who have presented their claims, he is not thereafter liable to such creditor failing to present his claim.

In some states the failure to present claims is more disastrous than in others. According to some statutes a claim which is not properly presented is *never* entitled to be a charge against the estate; in others, the effect is to limit him to whatever assets there may be remaining after the payment of the debts which have been properly proved by presentation.

Follow Prescribed Method

Creditors must ascertain the prescribed method of filing claims. Proof, in some states, requires an affidavit to the claim. In some states, the proof of claim is to be filed in the court itself, although these statutes have been interpreted liberally and if the claim is filed with the executor or administrator it may be sufficient.

In some states the knowledge on the part of the executor or administrator of a claim of a creditor, which is not formally presented, binds such personal representative to pay the claim out of the assets of the estate before he has distributed them. *In re Goldowitz' Estate*, 12 N. Y. S. (2nd.) 221. But the general rule is to the contrary; hence creditors ought, as a matter of sound practice, to prepare claims formally and present them in like manner to be on the safe side.

The statement of the claim should give full information as to the amount and nature of it; the executor or administrator is often one who is not familiar with the business of the deceased and he should therefore be informed sufficiently as to promptly allow the claim as a proper one, if it is entitled to be so treated. If the claim is founded on some instrument, such as a note or draft, it is well to attach a copy of the instrument.

Some states require secured claims to be described in detail: i. e. the lien should be described, or a copy of the instrument giving rise to it should be attached, and information as to where it is recorded, date, page and volume in the bureau or registry for recording such instrument. In some states the form for presentation must also be signed by the creditor.

Request Acknowledgment

When the creditor presents his claim to the executor or administrator he ought, as a practical matter, to request an acknowledgment of it. If the representative of the estate acknowledges the claim (and especially if he admits that it is correct) it stamps the claim as a liquidated one and that therefore it is not disputed. If the representative is going to reject the claim it is well for the creditor to receive notice of the rejection, because the creditor is then remitted to his remedy by taking legal action. The rejection of a claim by a representative is by no means a determination of it judicially; it simply means that the executor or administrator is not satisfied with it and will not pay unless the creditor obtains a judgment for the claim.

Though an executor or administrator cannot be sued during the six months' period (as in Mass.) it does not necessarily mean that such representatives of deceased estates never do pay bills during that time. In many cases it is known to what extent the deceased was indebted and whether there are enough assets to comfortably pay all such bills. Therefore if an executor or administrator is reasonably certain that he takes no risk in paying the bills before he needs to do so by statute, he will often take care of the bills.[1]

After the Six Months

After the period has expired, during which the executor or administrator cannot be sued, he may of course, pay the debts if he has enough assets to do so. He should, indeed promptly pay the claims which have been presented (of which he has notice, whether according to the jurisdiction this means have knowledge of, or that formal presentation must be made). After the initial period when he is immunized from suits is over he can be sued. And here is the place a creditor in many of the states must watch his claim carefully.

In many states there is a short statute of limitations within which a suit may be brought. If a creditor fails to sue within that time limit he is thereafter barred. In Mass. this time is narrowed to one year from the time the personal representative qualified by giving bond. And it is to be remembered that for the first six months the general creditor cannot sue; therefore there is a scant six months to sue (though the court may extend the time for sufficient reason *if a petition is brought within the year* for another limited time, and the Supreme Court may on a bill in equity, filed by a creditor, grant relief to a creditor who has failed to prosecute his claim because of fraud, mistake, accident). See Mass. G. L. C. 197, Sec. 9 as amended, and C. 197, Sec. 10.

File Claim Quickly

Where a creditor knows the personal representative of the deceased has refused to allow the claim, he should lose no time in having the claim judicially determined. Ordinarily the only remedy open to a creditor is to sue in one of the common law courts; there is little a creditor can do in the Probate Court itself in most states, except to compromise subject to order of the Probate Court. This may be a weakness in the Probate Court system but the jurisdiction to adjudicate disputes between people is fundamentally in the common law courts and this jurisdiction cannot well be taken away from them.

The short statute of limitations governing suits against executors and administrators has for its purpose the prompt settlement of estates. It therefore is well designed

(*Continued on Page 28*)

[1] It should be noted here that in Mass., as well as in many other states, an executor or administrator may pay preferred claims as soon as he is satisfied he has enough assets to do so. The section quoted *supra*, Mass. G. L. C. 197, Sec. 1, specifically exempts from its operation "a demand which would not be affected by the insolvency of the estate" and it has been determined that funeral expenses are in such category. *Breen v. Burns*, 280 Mass. 222. So expenses of the last illness and funeral expenses may be sued for any time.

Contractors As Credit Risks

Accounts Need Proper Handling by Credit Department

by DON E. NEIMAN
Secretary-Treasurer
NATIONAL ASSOCIATION OF CREDIT MEN
Central Iowa Unit

There is a variance in the Laws of the various States as to the manner of acquiring a Mechanics' Lien. The principles, however, in all States are fundamentally alike, and the points which I will attempt to bring out can be applied without regard to the provisions of the Law existing in your particular States.

Likewise the Laws on the protection given to materialmen on public improvements vary in the various States, but here too there are certain fundamentals which are the same. Naturally, so far as Federal jobs are concerned, the Miller Act is the same no matter where the project is under construction.

Whether the protection afforded to the materialman is given by the Mechanic's Lien Statutes or by Public Improvement Bonds, time is an essential factor in all cases, and what I have to say will be devoted to trying to impress upon you the importance of keeping your records in such shape that you can avail yourself of the protection of the various Laws enacted for your benefit.

It has been our experience that there is really no more work involved in doing things the right way than there is in doing them the wrong way; in fact, it is easier, and less work to do them right than it is to do them wrong.

Separate Ledger Charges

The first point which I wish to bring out is that you should keep separate ledger charges on each job or project. This is true whether it is a case of your having Mechanics' Lien rights or rights against a Public Improvement Bond. Let me point out some of the reasons why you must keep particularly accurate records of any of these jobs or projects where you are furnishing materials.

The Miller Act requires that your claim must be filed within six months from the completion and acceptance of the job, and that suit must be commenced within a year from the completion and acceptance of the job. There is another provision of the Miller Act which provides:

> "Every person who has furnished labor or material in the prosecution of the work provided for in such contract, in respect of which a payment bond is furnished under Section 270a of this title and who has not been paid in full therefore before the expiration of a period of ninety days after the day on which the last of the labor was done or performed by him or material was furnished or supplied by him for which such claim is made, shall have the right to sue on such payment bond for the amount, or the balance thereof, unpaid at the time of the institution of such suit to prosecute such action to final execution and judgment for the sum or sums justly due him: PROVIDED, HOWEVER, That any person having direct contractual relationship with a sub-contractor, but no contractual relationship express or implied with the contractor furnishing said payment bond shall have a right of action upon the said payment bond upon giving written notice to said contractor within ninety days from the date on which such person did or performed the last of the labor or furnished or supplies the last of the material for which such claim is made, stating with substantial accuracy the amount claimed and the name of the party to whom the material was furnished or supplied, or for whom the labor was done or performed."

In many States on public improvements there are Laws similar to the one in the State of Iowa, which provides as to the time for filing claims:

> "Claims may be filed with said officer as follows:
> 1. At any time before the expiration of thirty days immediately following the completion and final acceptance of the improvement."

Then, in Iowa there is an additional provision that suit must be commenced within sixty days after the final completion and acceptance of the improvement.

Also, the Mechanics' Lien Statutes of most States have provisions a great deal similar to that in Iowa, which is as follows:

> "The statement of account required by Section 572.8 shall be filed by a principal contractor within ninety days and by a sub-contractor within sixty days from the date on which the last of the material is furnished or the last of the labor was performed."

Keep Records up to Date

It will be seen from all these provisions that in each case the time within which you have to protect your rights dates either from the furnishing of the last material or from the time when the job is completed and accepted. It, therefore, becomes very important to keep your records in such shape that you can do two things. First you can ascertain immediately when the last material was furnished or when the job was completed and accepted, and second, you can adopt some system so that on these construction jobs, they will be checked frequently enough so that your time will not expire.

While we are on the question of time, you should keep it in mind that when the Law says thirty, sixty or ninety days, that this does


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not mean one month, two months or three months. Just recently a case came to our attention where the sub-contractor had sixty days in which to file his claim. The last work was done July 28, 1947. He filed his claim on September 27, 1947, and at the time of filing made the remark that he still had another day within which to file. Now, everybody knows that July has thirty-one days, that August has thirty-one days and the result was that he had filed on the sixty-first day. He lost his case, the contractor was no good financially, and the amount involved was $1,190.00.

An Efficient System

In my judgment no matter how many jobs you have, each job should be kept on a separate ledger card. At the top of this card should appear the contractor's name and something to indicate the job on which the material was furnished. If it is a public improvement the full project number should be put on the card, if a private improvement then at least the street address or the legal description of the property. Then once a month when statements are sent out all of these items should be consolidated on one statement, showing the amount due on each job and the total owing from that particular contractor. In many lines of business you will know from the amount of the account whether the job is nearing completion or not, and by the consolidating of the statements you can tell at a glance the entire amount due from the contractor.

Modern bookkeeping records without a question are an improvement over those which were in existence in the past, but they also have their defect. Many times you will find that the posting on the ledger cards as given by the machine is not the date when the material was actually furnished, but was several days after. This is because in getting your records together there is a delay between the making out of the original tickets and the furnishing of the material to the time it goes on the posting machine and posted to the ledger account and the posting machine posts all of the items on the one date. This means that you must be constantly on guard to know the exact dates from the tickets when the last material was furnished.

A credit man for whom I have a great deal of respect, in handling this type of account, told me that he keeps ledger cards on his jobs in a separate tray from those where the material is furnished on open account, and that he checks these job cards at least twice a month, and when the job has been completed, he gets the original charge of the last item, and notes the date on the ledger card of the furnishing of the last material. By doing this he keeps himself constantly informed of the condition of the account, and the time within which he has to file his claim.

Figures Not Always Accurate

Many of you will say that you are already keeping your records right, but we have discovered that this is not true of many of our members. We perform a service for the mortgage loan companies which consists of what we call " clearing a job " at any time they request that the clearance be made. In other words, the loan company will ask us to find out what is owing to the material houses on a particular job on a particular date. This is generally when they are getting ready to make their final settlement, and they want to know that all the bills are paid.

We have found in many of these cases that the figures given us by the materialmen are inaccurate; that they give us the information on another job instead of the one about which we are making inquiry, and in other cases that they have an account due them on this particular job mixed up with their other accounts, so that they tell us there is nothing owing, and then maybe thirty or sixty days later they will call us and say that they did not get their money on that job, and tell us the amount, which is owing.

On the public improvements an automatic follow-up should be devised so that you can keep checking to know whether the job has been completed and accepted.

Heard Act Requirement

The second thing that is important in keeping your records is the manner in which your delivery tickets or your bills of lading are made out. The Heard Act, of course, has the following requirement:

> "Every person who has furnished labor or material in the prosecution of the work provided for in such contract."

This has been construed by the Courts to mean that the material must actually be used in the improvement, and this is true of the Law in many States. In Iowa we are more fortunate in that all that is necessary is that the material must be furnished for use on a particular job. If thereafter it is diverted to another job the materialman still has a lien against the improvement for which it was furnished; in other words even though none of the material goes into the job, if the materialman has *furnished it for* that particular improvement, he still has a lien upon that property.

Delivery Records

Your method of delivery will vary according to the type of business which you are operating. In some cases you will be delivering by truck with your own trucks. In these cases every ticket should be marked with the address of the job for which it is furnished, and should be signed by somebody on the job who is representing the contractor or the owner.

When material is furnished to the contractor, or his representative at your place of business, that is he calls for it with his own truck, the ticket should be made out showing the job, and here again it should be signed by the person to whom the delivery is made.

A great many of you will be making your shipments by rail or truck, and in these cases the bill of lading, itself, should show that the material is being shipped to a certain individual or firm for a certain project or for a certain job. Here the delivery to the railroad company where the material is f.o.b. the point of shipment constitutes delivery to your customer.

You may think that I am overemphasizing the importance of keeping your records properly and protecting your rights by thus do-

ing. As a practicing lawyer for over thirty years, I have observed a great many cases where materialmen have lost large sums of money due simply to the fact that they have not kept their records in proper shape. The best lawyer in the United States cannot win your case for you if you have not complied with the provisions of the law.

Complete Compliance Essential

You should keep in mind that all bond laws on public improvements and all Mechanics' Lien laws are special rights given by the Statutes of the United States and the various States; that these rights did not exist at common law and constitute the giving of special privileges to certain classes of people. The Courts in interpreting such laws are bound, of course, to a strict construction; that is if materialmen have complied with all of the provisions of the law they obtain the protection, but if they do not the Courts cannot give them any protection, but are bound to follow the law strictly.

Not only are the Courts bound to follow such a course of strict construction, but you must keep another thing in mind. In most cases where you are trying to avail yourself either of a public improvement bond or a Mechanics' Lien, somebody has already paid for your material; that is paid the money to the contractor. Now, place yourself in the position of a Judge, where this is the case. On one side you usually have a corporation which is in business for profit. On the other side you either have an individual or perhaps a corporation with limited funds. The question that is placed before you is whether or not the individual or the corporation with the limited funds should be compelled to pay again an account which has already been paid. I will tell you frankly that most Courts under a situation like this, unless they are bound by the Law itself, and you have complied with every provision of the Law, will try to avoid entering a decree and forcing payment of the account again.

In spite of the fact that you probably think you are keeping your records properly, I would suggest that you recheck them.

An Idea to Increase Sales

Credit Analysis of Accounts Augments Sales Study

by DON K. RANDOLPH
Credit Manager
NATIONAL SUGAR REFINING COMPANY
New York

Credit men have passed through two stages of development and are now approaching the third stage where I think they will be called upon to constructively assist the Sales Department by fully utilizing the facilities at their disposal.

In the first stage of development the men who carried out the duties of the credit men were called upon to either approve or decline orders, based upon their ledger experience and information they obtained by reading agency reports, letters from banks and analyzing interchange reports. Their duties were confined entirely to the office in which they worked.

In recent years management has become aware of the importance of credit work so we have passed into the second stage and today we are expected to confer with the Sales Department, personally call upon the trade, not only to obtain first-hand information, but also to sell the goodwill of the company.

Approaching Third Stage

Now I believe we are approaching the third stage where the credit man will take an active part in assisting the Sales Department in promoting sales. Today a good many companies find themselves in the position where the demand for their products has slackened or their production has increased to such an extent that they must now enlarge or more fully develop their present market or find new outlets. A great deal of money is now being spent to have market areas tested by outside companies specializing in this particular work.

I believe the Credit Department can take an active part in this phase of sales work. Our Department made an analysis of total sales in a single state, according to the class of trade we sell, to determine the amount of credit we were extending and the credit risk we were assuming. A study of this nature can be made on a nation-wide scale or confined to a small area, depending on the need and how much effort you want to devote to it. It is not necessary to break down the analysis into various types of business but as most of us sell to wholesalers, chains, cooperatives, retail stores and various kinds of manufacturers, the result is more informative.

Classification System

As a credit guide we use four classifications based on individual net worth. I realize that net worth is not a true indication of the ability to pay but as we must have some basis on which to work, we decided it was the only practical means. I would like to point out that if we were able to obtain financial statements from all of our customers, the use of working capital as a classification would be an equally important guide. However, we did find that the net worth of the companies is available on practically every customer by checking agency reports, bank letters and other sources of information we all have in our credit files. It is not possible to base these groups solely upon Dun & Bradstreet ratings because many companies are assigned capital ratings. The four credit classifications are as follows:

1) Over $100,000, C plus 1 to AaA1
2) $50,000 to $100,000, D plus to C
3) $10,000 to $50,000, F to D
4) Up to $10,000, M to F

We made up individual cards for each customer showing the name and address, type of business, credit rating and total dollar sales for the year. When this information had been placed on all the cards we then classified the customers according to type of business and broke down each category according to the four credit classifications.

Helps to Gauge Credit Policy

Now what did we prove credit-wise and how can this information be utilized by the Sales Department? Before I answer those two questions I would like to ask you a question. If the Treasurer of your company were to ask you today, how your accounts receivable are spread credit-wise, could you give him an intelligent answer?

I believe if you had made a survey such as I have just discussed, you could tell him fairly accurately what percentage of your total sales were made in Number 1 category, and likewise, what percentage in the other three. It should prove to your satisfaction whether or not too large a proportion of your business is confined to group Number 1. If the results show that the bulk of your business is in the hands of a relatively few accounts in Group #1, it could mean that your credit policy has been too conservative and should be revised. On the other hand, it might show the reverse with too many sales in groups 3 and 4. In that case it might save you a lot of headaches if you were to study your credit policy from that angle. The same would apply to the types of businesses which have definitely become credit prob-

lems and it is quite likely that from now on we will be continually faced with unfavorable conditions in one line of business or another.

The survey can also show the total number of accounts you sell on a cash basis and what percentage they are of total sales. I believe this bit of information can be very helpful in dispelling the usual stories originating from the Sales Department.

As I mentioned earlier in this discussion, the sales are shown on an industry-wide basis. This is of interest to the Sales Department as it shows the strength and weaknesses of the sales coverage. I believe the Sales Department is also interested in knowing if they are receiving their share of business from the small companies as well as the larger ones. Let us assume the survey shows that you are weak in your distribution to a certain class of trade. You know that your Department has been partially responsible because this particular type of business presents an extra hazardous risk.

Now what can be done to increase sales in this particular situation? We know, as a result of this suvey, exactly how the credit risks are spread both dollar-wise and credit-wise. Management is now in a position to determine whether or not they care to risk sales expansion in that particular field and if so, how much without materially weakening their financial condition. If an expansion program of this nature is decided upon the Sales Department could select certain accounts with the approval of the Credit Department that have heretofore been restricted because of the credit policy. These companies would receive special attention by the Credit Department and periodical check-ups would be made to ascertain the amount of increased sales versus the bad debt losses.

As weaknesses appear in the general economic structure of any particular industry that you sell, the extent of the risk you are assuming is plainly visible and gives management an opportunity to decide whether or not stricter credit controls should be exercised and possibly sales effort diverted to more favorable channels.

What Makes A Good Credit Man?

Some Suggestions for Beginners in Credit Work

by FRED HARRIS
Credit Manager
JOHN DEERE PLOW COMPANY
Omaha

Author's note: It is not with the hope of expounding any new theories, or to lay down any new rules for credit procedure that this article is written. It is in the hope that in restating some well known principles, some beginners may avoid many of the pitfalls encountered in the conduct of their work.

It might be well to review briefly the writer's thirty-five years with one company. After a year or two of office experience I travelled a territory, selling goods. Part of the salesman's duty consisted in making collections from dealers, obtaining annual financial statements, helping them with their settlements with their customers, and otherwise helping them make their business profitable. There was always a goal—to sell more goods profitably; and to do so necessitated keeping the dealer in the frame of mind, and in financial position, to sell more goods so he could buy more. Goods shipped to a dealer do not increase a salesman's volume if allowed to remain on the dealer's shelf or in his warehouse.

Concentrate on Sales

It became sort of a mania with me to keep the goods moving to the ultimate consumer. Maybe I was just lazy and found it easier to try and improve the methods of the customers I had than to hunt new ones whose business experience with us would in turn be short-lived. This may be the reason why I think a credit man should be just as much interested in volume of sales as the sales manager, his interest being influenced to some extent by the fact he has the collection to make. But the aim is the same—to sell goods at a profit.

I know that the sales and credit departments' views will tend to diverge at times. The credit man's efforts should be pointed to bringing the views parallel again, in order to arrive at the common goal—sales. In many cases the easy way is to refuse to approve the order for shipment. But the easy way is seldom the best method. It incurs enmity and makes the route more difficult in the future. Then, too, the management will soon learn that credit approval or disapproval has become perfunctory and will find a new credit man or pay the present one according to his talents.

Know Your Facts

Cooperation with the sales department is easy if the credit man wills it that way, provided, of course, that the management is wise and impartial. But cooperation is not a one-way street. One of the essentials to cooperation is that the credit man has his facts. A credit man who depends on hunches or intuition in lieu of facts has two strikes on him in any controversy. He should get his facts from every possible source.

Meeting the customer face to face is invaluable. The gleam in his eye, the clasp of his hand, the exposition of his frame of mind, the orderliness of his place of business, or lack of it, are all sources of information, but must be supplemented by something concrete. Financial statements, where available, bank reports, interchange data, and the salesman's written report should supply the credit man with enough information to support his opinion and verdict. If the order cannot be approved the credit man and sales manager and the salesman should be able to sit down together and work out a program to make approval and shipment possible.

After all, the object is to ship goods and get the money. What methods to follow cannot be outlined here, as these will depend on many factors, such as the kind of goods, the distance from shipping point, the frequency of the salesman's visits and other things. The point to be considered is that the spirit of cooperation is present to attempt to accomplish the end sought.

The cooperative spirit in the salesman should be encouraged. Salesmen are "folks too," and if the proper spirit is shown by the credit department, the salesman usually reciprocates.

Visiting by Proxy

If the trade territory is of wide extent, the credit man cannot always shake the customer's hand. The next best thing is to "Shake the hand that shook the hand of Sullivan." In other words, the hand of the salesman who can get the facts.

Enthusiasm may be a word highly overworked but a credit man without enthusiasm makes about the same impression on his associates as the dime store girl who reluctantly stops chewing gum long enough to insult the customer by languidly inquiring "Can I help you?". Uncontrolled enthusiasm may be likened to an engine without a governor, which is useless. But without enthusiasm one has neither engine nor governor. Sales

just cannot be made successfully or satisfactorily without enthusiasm on the part of everyone who comes in contact with the customer. Even the office boy and elevator operator must have the spark of enthusiasm. This is particularly true of telephone operators and correspondents.

Letters Make or Break

In the matter of correspondence, as well as personal contact, the credit man can win business or lose it. No one in a business organization has more effect on its customers in the way of correspondence than the credit man or his assistants. Letter writing is an art too seldom acquired by letter writers. Too often they take it for granted that they have acquired the art, while if they took even a short letter-writing course they would at least learn that they are woefully lacking in accomplishment. Good will cannot be purchased but it can be planted and encouraged until it is one of the most useful assets of a company. Tactful, simple and careful letters are essential.

Too often the credit man is burdened by many details and for this reason cannot see the forest for the trees. The saving in cost is false economy. A credit man should be free to leave his desk, his telephone, and minor details and get out on the territory, preferably with the salesman. The things he sees and hears the first time out will surprise him. A merchant is proud of his business, whether large or small, and, unless the credit man is there to press a collection, is flattered that same one called on him for reasons other than to get his order or collect his money. The credit man will learn not to talk too much but let the customer expound and voice his views. They might be worth while. We can learn a lot more listening than by talking. Nothing will broaden the credit man's view like calling on the trade.

Credit Education

A few remarks on education may not be amiss in this article. Regardless of the formal education a credit man has upon entering his

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Planning for Profit

The Credit Man's Relation to Budgetary Control

by STEPHEN HAVASEY
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In order for a management budget plan to be successful, it is extremely important for the business men in the company—and this certainly includes credit men—to realize that successful budgetary control is a function of *all* top management; that better budgets are prepared by the co-operative effort of *all* key executives and that effective budget plans are for the use of *all* executives and department heads—both individually and collectively—and including the credit men.

Before discussing the particular part played by the credit men, I'd like to give you a short description of better budgeting.

A Composite Picture

A business man's budget—one to be used by management as an aid in conducting the business in a better fashion—is a composite picture, expressed in dollars and in the form of profit and loss statements and balance sheets, and the coordinated future policies and plans of each and every executive and department head making up management.

Expressing the budget in the form of profit and loss statements and balance sheets certainly does bring the accountant into the picture when the budget reflects the future policies and plans of each and every executive and department head, for a good credit man has future plans based on certain policies which will prevail. But it is important to remember that the accountant's job is to put the figures together and to prepare the budgets on the basis of information regarding plans furnished by the credit man and the other company executives.

What are a few examples of these plans?

The Sales Vice-President plans to sell 200,000 units of product, to advertise in *Fortune, Life,* etc., to conduct an intensified sales promotion campaign and to institute a salesmen's compensation plan.

The Manufacturing Vice-President plans to make a certain number of units based on the sales plan; to operate a standards department, to change the basis of incentive compensation of factory employees, to tool for new products.

The Treasurer plans to finance these operations; to reorganize the billing department; to install and operate a standard cost system in the factory accounting department, and to organize to collect statistical information on sales.

After all the plans of all division heads are coordinated, their anticipated effects in the form of dollars and cents become the budget.

Credit Man Must Plan Too

In order to do his job well, a credit man must also plan. Basically, he must plan to maintain an organization to carry out the functions of credits and collections on the basis of certain policies. These policies can change from time to time, depending upon the credit outlook for the budgeted period. Some factors to be considered are:

1. Are we approaching a period of poor times, normalcy or boom?

2. Will we continue to ride the spiral of inflation or can we expect a deflationary period?

3. Will there be a shift in consumer purchases from independent stores to chain stores, or vice versa.

These questions, and others along these lines, must be answered as a basis not only of a credit policy, but also in order to forecast sales volume. The latter is usually the responsibility of the Sales Division, but it would be helpful to the sales manager to consult with the credit manager. However, no sales manager will work with the credit manager in this regard unless he knows that the credit manager takes a keen interest in the business outlook, studies business indices in general and sales trends of his particular industry, makes his presence felt at conferences and develops the ability to make good forecasts.

The credit manager should be keenly interested in future sales volume for another reason. As you all know, volume of sales has a great influence on net profits. Because every company has certain fixed expenses to absorb, the ratio of net profit to sales income increases as volume increases. A more liberal credit policy will increase sales volume, the extent of the increase depending upon the nature of the market—chain stores, wholesalers, or retailers.

Of course, a more liberal credit policy usually means more bad debts and/or slower collections. The credit man should have a fairly good idea of the relationship of volume to bad debts and collections. At least once each year—at the time the budget is prepared—the credit man, in collaboration with the Sales Manager, Treasurer and budget man, should determine the point at which the relationship among volume bad debts, collections and credit department expense would yield the greatest net profit. With this decision made, the Sales

Manager is in a better position to make a sales forecast; the Treasurer is in a better position to plan for financing operations and the budget man is in a better position to prepare his budget statements.

Budget Information

The credit manager can then outline his plans for the budgeted period, and, on the basis of his plans, furnish the required information to the budget accountant. This information includes:

1. The budgeted cost of operating the credit department. In better budgeting each department head should submit these figures; they should not be set by someone else in the organization. Revisions in these expense budgets should be made by higher echelons of management, but only in collaboration with the department head.
2. Bad debt percentages of sales. These may be different in different markets; different in the same market at different times of the business cycle; different credit policies also cause differences. This information will be used in preparing the budget statements and by the Treasurer in making financial plans.
3. Data regarding anticipated collections. This data should show, by markets, what percentage of sales will be discontinued, what percentage will be collected within 30 days, 60 days, etc. This data is especially important in companies not having large cash reserves and/or engaged in seasonal industries. In any case, a cash requirements budget cannot be determined without this information.

These are the things a credit manager should do in budget preparation, that is, if a company has a budget plan. But not many credit managers do these things. Why not? I know one budget accountant who thinks he can do a better job by himself, so he doesn't ask the credit man for this information. I know of another budget man who once did ask for this information, but the credit man did not want to stick his neck out, and preferred to pass the buck. Of course, neither course is the right one. Obviously, a good credit man should be the

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Education and Professional Advancement

by DR. CARL D. SMITH

Director of Education

NATIONAL ASSOCIATION OF CREDIT MEN

On the National Association of Credit Men there rests at this time a great educational responsibility. The success of our National Association and of each of its affiliated units, in adjusting ourselves to doing business in a new kind of world, in contributing to higher standards of business conduct, in bringing about means for strengthening industrial democracy and its practice, and in understanding the increasing complexity of national and international economic relationships, must depend to a great extent upon the vision we have of our educational responsibility and what we do about it. If we fail to take this responsibility seriously and to see that a properly qualified leadership for credit and financial management is trained to carry on, we shall have been remiss in our duty as Association leaders. We shall also have contributed mightily to the failure of our Association in meeting its problems in the trying days ahead.

Personnel Problem

The seriousness of the problem of finding and holding good credit executives in the member firms of our Association is well known to most of us. The significance of this problem merits our consideration and so I ask that you think through some of the factors to which we should direct our attention.

For many pre-war years, and more especially at present, there has been a steady accelerating flow of the most competent credit executives out of credit work into more responsible executive postions. We do not deplore this trend, in fact we take pride in it. It has come about from the recognition which top management is giving to the valued service which these chosen leaders of our profession have rendered to their own firms and to the business community in general. They have demonstrated their competence and have shown that they possess the quality of leadership so much needed in financial management circles.

We are confronted with a serious danger at this point if we provide no adequate plan and method for bringing new and qualified personnel into our ranks to fill the gaps left by those who have moved up. The war period contributed to making this dearth of personnel more acute, for during the war credit departments shrank to a skeleton force and often the most competent men were allocated to other departments. There they readily made good and have thus burned the bridges that reached back to their old jobs.

Professional Recognition

Another significant factor which impinges heavily upon the problem is the lack of adequate professional recognition of the credit executives. For entirely too long the credit man and the bookkeeper have been considered synonymous. Why should this be so? The fault is our own and we have no justification for trying to place the responsibility or the blame elsewhere. We have failed to appreciate our own importance and to sell the public, our own top management executives and our customers on the dignity, the values and the professional importance of the work we do.

The real crux of this problem of lack of professional recognition rests in two words, "credit men." Really now, what are "credit men"? We have in the catalogue of business terms "salesmen", "warehousemen", "floormen", "traveling men", "customers'-men", "showmen", "baggagemen ", "lumbermen", "servicemen", "watchmen", and a score of other "men" in addition to "credit men". Are any of these really thought of in terms of "executives" or as "managers" or as "officers"? Why not begin to remedy this situation immediately by changing the name of the National Association of Credit Men to the National Association of Credit Managers or to the National Association of Credit Executives. Doing so, we will have taken a long and effective step toward gaining the professional recognition we deserve and also in attracting to our profession the type and quality of personnel we must have to assume the leadership in American business we covet.

Should Have Greater Authority

Our educational responsibility points clearly to the heart of another problem which bears directly upon our professional status and which is quite personal in nature. Not all, but too large a percentage of credit men, have a strong sense of frustration and a companion feeling of inferiority as contrasted with their associate executives in other departments. These attitudes of mind and action are not natural with businessmen, they invariably spring from inconsistencies which credit men face—inconsistencies between the demands that are made upon them and the degree of authority invested in them as individuals and as a group.

If credit executives as a group

are "the guardians of the nation's profits" as our National seal implies then are we not entitled to the full authority and significance which that phrase connotes? If it is our responsibility to protect the resources of America's economy and of our respective organizations, then why should we be hesitant about facing realistically the inconsistencies and doing nothing about them?

So long as we demonstrate by our own thoughts and actions that we complacently accept these inconsistencies we can scarcely expect either the business public or top management to assume any other viewpoint towards us than that which we reflect. We may have done a fine job and may have upheld the high ethical standards of our Association and our profession but so long as we are frustrated and confused in our vision and concept of our jobs just so long will we be stymied professionally speaking.

Advancement Through Education

It is not possible to talk about *professional advancement* without taking into account the intrinsic relationship of *education* to professional advancement.

Looking at education from the common-sense point of view of the business man we see two fundamental objectives. First, to provide the means by which the great mass of our people may obtain the basic training necessary for making a living and for deriving the greatest good and enjoyment from life itself. And, second, to provide the opportunity for superior training whereby the individual who has potentialities may prepare himself for social, political, business or spiritual leadership. These are broad and basic objectives and must be given first consideration in any study of the place of education in our society.

There are those who assume that education should consist of filling the mind of the recipient with the important facts accumulated by man throughout the ages. A general education, therefore, becomes a general accumulation and recapitulation of the objective experiences of the human race. Special education, on the other hand, becomes a more detailed and exhaustive briefing of the facts and information in a more restricted field of knowledge and experience. Education in business according to those who follow this theory consists of the summation of the results of business experience classified, systematized and put into orderly pigeonholes for ready reference when the demand arises for their use.

Widely Accepted Theory

This theory has found wide acceptance in most institutions of higher learning. It is efficient as a learning method. The time, the energy, the prestige and the patience of the teacher as well as the student are conserved by this method. The student seems to develop a positiveness, a precision of thought and a firmness of acquisition of subject-matter remarkable for the relatively short time that he spends upon his studies. By this method the teacher masters once and for all the facts of his field and, having put them in order, proceeds to pour forth to his students a flow of information much of which has been handed down to him from his teacher.

Another school of thought starts with an entirely different method and comes out with a different result. Those who follow this thinking take the position that education should enable the individual to learn at first hand under proper guidance the nature of the problems that arise out of new situations and out of a constantly changing order of business activity and how these problems may be solved.

Looks Forward

This method is aimed at the development of the student's ability to take positive action in the face of new and changing experience. It is less concerned with what has happened in the past and more interested in what is likely to happen in the future. As credit executives we are more interested in the new experiences that may confront us in the days ahead than we are in the accumulated knowledge of the past fifty years. I admit that what has gone before in credit work may

have a vital bearing on what we do tomorrow, but I contend, that tomorrow's problems cannot be solved wholly in the light of yesterday's experiences. We are living now and doing business today on a very different basis and in a changed world from that in which we lived and did business in 1938 or 1940. The problems of tomorrow which you and your associates must face will not be recognizable in terms of the problems you faced before D-Day. New trends and forces, new problems, great technological changes, and new sources of power parade before us in a manner that was scarcely dreamed of by the business man of a decade or two ago.

NACM Education Courses

The National Association of Credit Men and its leaders have always been vitally interested in education. The implementation of that interest was evidenced in the first decade of the Association's life when evening classes were formed in which credit men might study at the conclusion of the day's work. This interest in credit education has been a strong contributing factor to the dynamic life of the Association and to its ever expanding influence.

The National Institute of Credit was created in 1918 as a properly approved and recognized medium of the Association for the furtherance of that type of educational activities which would best serve the needs of credit men and women. At the outset the concept of professional development and advancement of those who had chosen credit work as a career was of primary concern to the leaders of our Association and to the founders of the Institute. They saw the need and they planned wisely for the future.

All of us are keenly aware of the important part that creative thinking plays in the management and operation of the credit department and in its relationship to other departments and to top management. We believe that every effort should be made in the training procedures to see that the student who pursues the credit education program may have the maximum opportunity for developing his imagination, his initiative, his powers of analysis and his understanding of how to approach new problems and to meet the changing business conditions.

Standards Raised

The current policy of the Institute stresses the need for those who wish to become credit executives of acquiring a broad foundation of business knowledge and workable skills in the administrative processes of credit management. Two years ago the National Credit Education Committee faced the issue as to what was needed to be done to bring our credit education program in line with this policy.

A survey of the field, including an opinion poll of the Fellows of the Institute and of leading credit executives, clearly revealed a recognized need for a great improvement in the courses of study and in the standards by which the Associate and Fellow Awards were to be obtained. Accordingly the Committee took action which was subsequently approved by the National Board of Directors whereby the course requirements for the Associate Award were increased by 50% and those for the Fellow Award by 150%. The whole program was greatly strengthened by the addition of several important courses that were lacking and sorely needed.

To complete his qualifications for the Associate or the Fellow Award the candidate is required to take a National qualifying or comprehensive examination set and given by the National Institute of Credit. In addition he must give evidence of three to six years work experience in the Credit department, or in other departments such as sales, accounting, finance or the general office.

These programs of study for the Awards are made available to the employees of the member firms of our Association through the chartered chapters of the Institute located in all principal cities. The chapter generally establishes working relationships with the school of business of the local college or university or with the extension division of the state university. Such relationships have been established with about 40 institutions such as Johns Hopkins at Baltimore, Northwestern at Chicago, Southern Methodist at Dallas, Tulane at New Orleans, Minnesota at Minneapolis and St. Paul, Michigan at Detroit and Grand Rapids, Kansas University at Wichita, University of California at Los Angeles, San Francisco, and Oakland, Wisconsin at Milwaukee, Temple at Philadelphia, University of Richmond at Richmond, Boston University at Boston, University of Cincinnati at Cincinnati, Cleveland College and Fenn College at Cleveland, Butler University at Indianapolis, Rutgers at Newark, Duquesne at Pittsburgh and many others. The local Credit Education Committee plays an important part in the development of these working arrangements and in the promotion of the program.

The Institute also makes available 16 different courses through correspondence study. These, with the exception of Credits and Collections, are offered in co-operation with the University of Wisconsin Extension Division. Those who are too remote from centers where chapters exist or who wish to supplement their resident courses may take adventage of these correspondence study programs.

Finally, we have the Executives' School of Credit and Financial Management conducted in co-operation with the University of Wisconsin at Madison. This School is established to fill an urgent need whereby credit executives who had achieved positions of prominence might carry on their training beyond that provided in the Fellow Award program. The School is in session during the last two weeks of August and only men and women who hold responsible executive positions in the field of credit and financial management are admitted. The attendance this summer will exceed 100. A top notch faculty of outstanding executives, university professors and leading specialists are employed to furnish instruction and to give leadership to the discussion groups.

To complete the program attendance for a period of three summers is required. This attendance need not be consecutive. In addition the executives are required to prepare and submit solutions to a series of 7 or 8 highly practical problems in

the intervals between the summer sessions at the end of the first and second years. Upon completion of the program and the requirements, the executive award is granted. This School has received wide acclaim from those who attended last summer and especially from top management executives of the companies from which these men and women came.

The credit executive can no longer make the excuse that he is not interested in credit education for the reason that the courses offered by the Institute are too elementary and do not meet his needs. The Executives' School is tailor-made for those who are holding responsibile executive positions. No one can afford to by-pass the opportunity which this School brings to him.

Our Responsibility

Our responsibility, it seems to me, runs along the following lines. First, that we endeavor to locate in our respective organizations the kind and type of young men and young women who will make worthy additions to our profession and to encourage them to develop through education their qualifications and abilities for advancement. Second, that we exercise group leadership in meeting the issues and solving the problems of credit education and professional advancement for our Association and its members. Third, that we stimulate our members to assume the responsibilities of leadership wherever they may be serving and that we encourage them to prepare continuously for these responsibilities. Fourth, that we encourage the research approach to problem solving in our daily work and thereby advance the effectiveness of our profession.

These objectives can be accomplished only where men and women are working and where they are meeting together in chapters and in Association gatherings. The function of the National Institute of Credit, its officers and staff, is to provide the policies, the procedures and the services whereby the chapters and the Association can help their members realize these objectives.

Let me urge upon each of you the recognition of our educational responsibility, not only to ourselves, but to those who labor with us. The only way I know by which the credit man can improve his position is for him to improve himself and for him to choose his personnel on the basis not of present knowledge but of future possibilities. Credit education has an unfinished task to help immature individuals move on into maturity and mature individuals into a still more competent maturity. Credit education therefore becomes an essential phase of the educational process and is conceived as an additional means of assuring credit men that intellectual maturity of the individual is necessary if they are to achieve the professional advancement so much desired.

Credit Management

(*Continued from Page 5*)

upon as *his* customers. He visits with them, discusses their problems, and gives them valuable aid and advice. He guides new ventures through their vulnerable infancy when the virus of over-expansion and over-extension is fatal. His judgment of human characteristics makes it possible for him to nurture and build an under-capitalization into an important and loyal customer. He sits at the bedside of a customer with a fiscal ailment and prescribes the remedy which effects the cure. He becomes a welcome visitor, and his helpful advice is not only gratefully accepted but eagerly solicited. In short, he is the exponent of Goodwill, without which there can be no profit.

Still Time To Register For Advanced Study

There are still a few openings left in the 1948 session of the Executives' School of Credit and Financial Management, sponsored by the National Association of Credit Men, to be held at the University of Wisconsin from August 22nd to September 4th.

This is an opportunity for self-improvement that should be grasped quickly by everyone who is interested in business administration in all its phases. The credit executive who realises that there is more to business than a credit department, and who finds out how the other parts of a business function, is the credit executive who is going to get ahead.

The school buildings on the campus of the University of Wisconsin are most modern. The program of study is interesting and challenging. The faculty is of the first class. The students are all of *executive* rank, seasoned, experienced credit executives. They have risen in their profession, but they feel there is still further to go.

Why not join them? Write now to the Executive Director, Dr. Carl D. Smith, at One Park Avenue, New York, 16, N. Y.

Is The 2 to 1 Ratio Adequate?

(*Continued from Page 8*)

days' cost of sales carried in the customer's accounts contrasted with credit in days extended by wholesalers and others.

Receivables-at-cost is simply another form of "inventory"; credit extension causes an increase in the total "inventory" of merchandise at cost figures. The same merchandise costs pass through two funds. Since the gross profit in the trade debtors accounts must be deducted from the receivables to pay operating expenses as it is collected, the problem becomes one of determining the rate of flow of goods at cost through two "inventories." By merging the two funds into one large "warehouse" containing the two like elements, the ratio becomes easy of application from a purely mathematical standpoint.

Three credit rules may be taken from inventory-at-cost and receivables-at-cost turnovers. First, a "composite" turnover may be determined, meaning the number of days required to convert the two "inventories" into cash. This is found by dividing the sum of the two into the cost of sales. With an average merchandise inventory of **$25,000** and receivables-at-cost of **$50,000** and an annual cost of sales of **$150,000**, the turnover would be two times per year—once every 180 days, a period longer than the required length to turn either the merchandise or the receivables separately. On the basis of general averages, say 60 days allowed by creditors assumed above, approximately 60/180 of the cost value will have been collected from the two funds. Theoretically sixty-six and two-thirds per cent should be invested by the owner to pass a 100% credit test.

The second rule states that creditors will carry that portion only of the accounts receivable (at-cost) which is expressed by the direct ratio of average number of days' credit extended to customers compared to days extended by creditors.

In round terms the creditors can be expected to carry the amount of current debt which the business itself can realize from collections-at-cost, during the period in which wholesale credit is extended. If in a given period of time, seasonal or otherwise, these collections are not sufficient to extinguish the entire amount of indebtedness created to carry a given amount of assets, the owner would supply the deficiency created by the slowness of the receivables turnover to avoid lagging creditor payment. Outside loans indicate roughly the disparity in turnover rates and the duration of slow collections.

Statement in Mathematical Terms

The third rule states that the creditors will carry *only* that portion of the inventory which the average rate of turnover of the inventory bears to the average rate of turnover of the payables. By comparing the average number of net credit days of payables to the days required for the turnover of merchandise, naturally an identical result will be secured. We can now state the proposition in mathematical terms as applied to the composite turnover of receivables-at-cost and inventory.

If we let "L" equal the amount of current liabilities (in dollars) which the business can carry, and "A" the amount of merchandise-at-cost plus receivables-at-cost, "TW" the composite rate of turnover of these two items per period, and "tp" the average number of turnover of payables per period, then:

$$L = A\frac{(TW)}{(tp)}.$$

Non-liquidating assets which practically means the balance of current assets should be carried on long term credits. Self-liquidation is a product of current assets at cost (receivables plus inventory) times the direct ratio of asset turnover to wholesale debt turnover.

Bank loans can be made good under the above assumptions only if the receivables or the inventory are liquidated in amounts equal to the loan. Forced sale of assets to repay outside loans merely speeds the turnover to meet the debt. This does not deny the possibility of loan renewals, in fact it re-emphasizes the basic cause for the demand. Resort to long term discount financing demonstrates the rule which again proves the necessity for synchronizing time payments with asset conversion. The point to the argument lies in the shift in emphasis from a conventional ratio to merchandise planning based on known or projected conversion rates of current assets and credit terms.

Suppose The Debtor Dies

(*Continued from Page 12*)

but creditors are sometimes shocked into a realization that they have held their claim too long and cannot recover because of the short statute of limitations. The statute is merciless and if a creditor has been lulled into a sense of security by promises of the personal representative to pay, and has failed to bring action within the period allowed by law for doing so, there is no way he can use the promises of the executor or administrator as an excuse for not bringing his action.

Statute Cannot Be Waived

The executor or administrator does not, in most jurisdictions, have the right to waive the statute of limitations, where such statute exists; this is because he does not have the power to waive the rights of others, including other creditors, heirs and legatees. Therefore, when once the statute has run its time and the creditor has not taken advantage of the privilege of filing any petition for extension or brought a suit against the personal representative, there is only a remote hope of realizing his claim. This remote hope lies only in the possibility that the personal representative has conspired to prevent the creditor from filing suit on time.

One other possibility remains: it has been held in some places that a personal representative may promise creditors to become personally liable if they forbear the bringing of suit, and if they do forbear and there is no fraud, he may himself be entitled to reimbursement from the estate for payments

thus made. There is too much risk involved to trust in exceptions of this sort, however, and creditors should keep their claims on the calendar and fail not in bringing action within the time limit afforded by the statute of limitations.

It is difficult to make a general summary of such a subject because every state has its own statutes governing the matter of presentation of claims and the methods of collection by legal action. However, there are certain matters in common in the administration of estates, between the various states. These things have been mentioned here: namely, the fact that the estates of deceased persons are administered under supervision of a court dedicated to such business, that a personal representative, such as an executor or administrator is appointed, that the court allows him a certain period to be properly notified of, and to assemble the claims, that in most places suits must be filed within a prescribed time. A few of the Massachusetts statutes have been cited (and one quoted) only as a sample; they should not be depended upon as having duplicates in other states. Each state must be explored for its statutes on the subject. Yet, the creditor, reading this article, will probably acquire a consciousness to take measures for the proof of his claim with the representative of the estate (or the court itself if the statute so provides) and to follow up his claim with vigilance lest he fail to take action against the personal representative during the period open for him to do so.

What Makes a Good Credit Manager?

(*Continued from Page 21*)

position he should never cease his efforts to increase his knowledge. It is a bad state of mind that indicates either the credit man thinks his knowledge is sufficient or that he knows all there is obtainable. Anyone who desires to learn can get information from many sources. His credit Association offers a great opportunity, especially to the younger, inexperienced man. It would do the older man a lot of good to sit in on some of these courses, with a real desire to learn and to help the novice, also. In helping others we might learn more ourselves.

Reading trade magazines, such as *Credit and Financial Management*, will bring out many helpful ideas. Association with other credit men in monthly meetings, and group meetings, is of untold value. Attendance at sales conferences, when possible, in his own organization will present views unobtainable in credit conferences alone. Reading, studying, listening are necessary occupations of a progressive credit man.

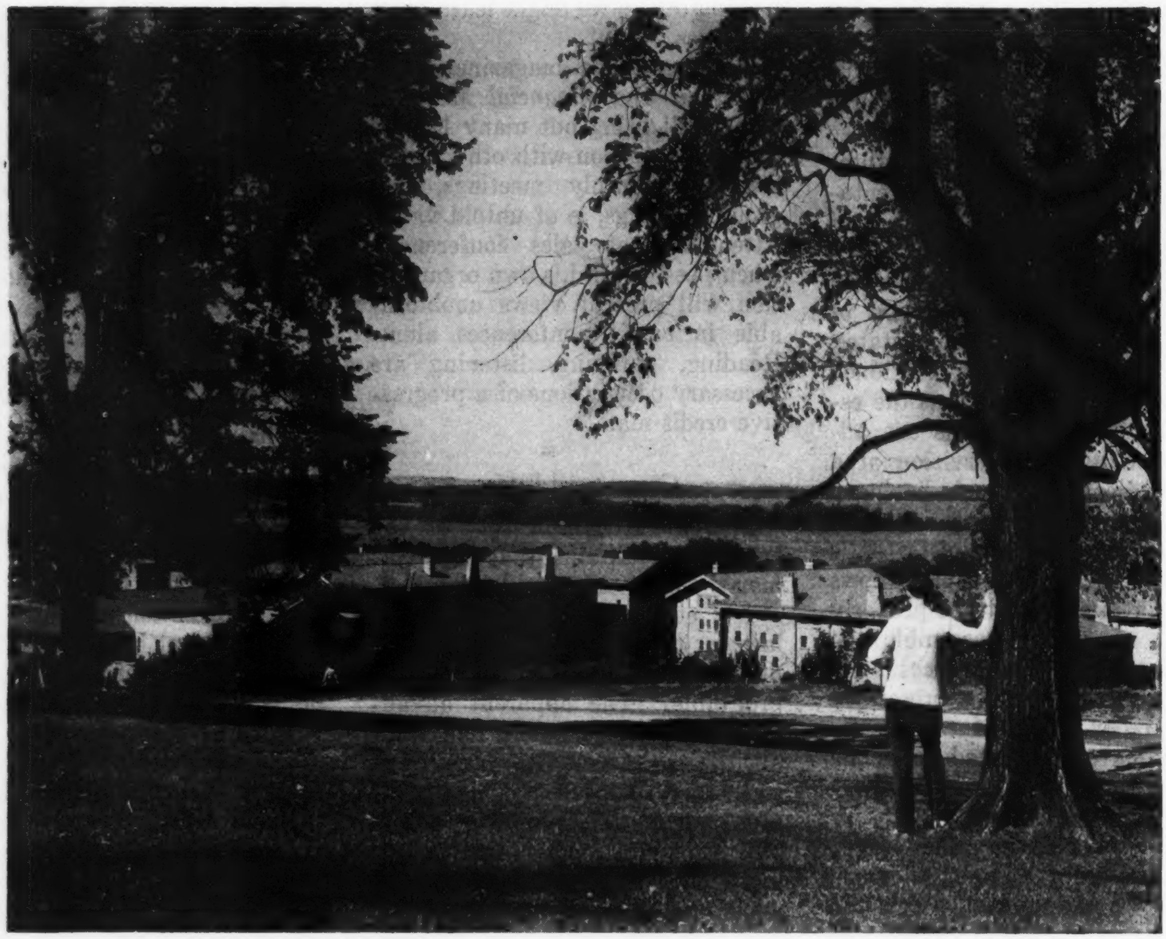
Commercial Ethics

Is a word on ethics out of line here? I maintain that a credit man should possess as high a standard of ethics as the physician, the lawyer, or the clergyman. Sharp practices may at times appear profitable. The apparent advantage is usually fleeting, and after all, the credit man has to continue to live with himself and his associates. Business ethics over a long pull have improved, notwithstanding some wartime setbacks, and I am sure the credit profession has been a big factor in this improvement. May there be no letting down in this forward movement.

We old-timers have been educated to believe in the importance and dignity of the individual as contrasted to the mass or the state. If this is true in government it is just as true in business. No one connected with a business, whether wholesale or retail, whether dealing in commodities or service, should overlook or ignore this importance of the individual which after all is merely the recognition of the human element. Besides its importance in getting and holding customers it is more fun. The person, no matter what his status in the firm he works for, who gets no fun out of his job soon goes stale and is just another name on the payroll.

I have always made it a rule, if at all possible, to greet immediately anyone waiting to see me, whether a customer, a salesman, an employee, or a job hunter. It takes only a moment to explain that he will get attention presently and not be left to feel he is being ignored. No one can do this very well unless he is genuinely interested in the welfare of the individual. If the credit man doesn't have this element in his make-up he will do well to cultivate it. The recognition of the fact that the human element in business is an important factor often determines the difference between a good executive, or salesman, or clerk, and one who will always be stamped with the seal of mediocrity.

Summer In Wisconsin



Slichter Hall, Residence of 1948 Students

On August 22nd, some 150 credit executives will meet at the University of Wisconsin for the second session of the Executives' School of Credit and Financial Management. Organized by the National Association of Credit Men with the collaboration of the School of Commerce, University of Wisconsin, the school was founded just last year.

So successful was the school, so enthusiastic were the students, that it was obvious that the school was filling a great need on the part of credit executives for an opportunity to obtain a broader grasp on the principles of Business Administration. The interest of top management is indicated by the fact that several companies which sent representatives to the school last year are either sending them back for the second year or sending other executives. Moreover several of those who attended the 1947 session received substantial promotions soon after returning to their desks.

Slichter Hall has been assigned to the school for living and classroom purposes. Slichter Hall is the newest of all the buildings on the extensive Wisconsin campus. It was completed late in 1947. It is situated on the banks of Lake Mendota in the coolest section of the campus.

The schedule is more or less the same as last year. The morning will be devoted to classroom work, with one period in the afternoon also. Four evenings per week will be spent in either discussion with visiting lecturers of national prominence or in round table discussion among the students themselves. Last year's students, in answer to a questionnaire, expressed the opinion that they would derive much advantage from round table discussions, and therefore these discussions have been incorporated in the program.

A faculty of eight first-rate instructors will be on hand throughout the session. Among them will be three of last year's faculty:

Dr. Marshall D. Ketchum, Associate Professor of Finance, University of Chicago, who will again teach Financial Management I;

Thomas H. Nelson, partner, Rogers & Slade, management consultants, New York, whose treatment of the Elements of Business Administration in 1947 aroused such enthusiasm among the students; and

Leland T. Hadley, credit manager, Goodman Manufacturing Company, Chicago, who will handle Problems in Credit Management I.

The faculty which has been secured by Dr. Carl D. Smith, Executive Director of the school, to take

charge of the second year courses consists of:

Jules I. Bogen, editor of the *Journal of Commerce*, New York, and Professor of Finance, New York University;

Dick Carlson, also a partner with Thomas H. Nelson in the management consultation firm of Rogers & Slade, New York;

Arthur R. Upgen, Professor of Economics, University of Minnesota, and associate editor, Minneapolis *Star-Journal;* and

Gustav C. Klippel, credit manager, Van Camp Hardware & Iron Company, Indianapolis, and instructor in credits and collections at Butler University.

The complete program of study consists of three two-week summer sessions, with extension work to be accomplished during the succeeding winter. The three sessions which a student attends need not be consecutive. Upon completion of the requirements students will be presented with the Executive award. Registrants who do not wish to obtain the award, or who do not feel that they will be able to complete the extension work, are nevertheless welcome to attend the summer sessions.

The first and second year courses only will be offered in 1948. Subjects of instruction are:

First year—Problems of Credit Management I, Financial Management I, Elements of Business Administration and Current Trends in Marketing.

Second year—Problems of Credit Management II, Financial management II, Economics of Money and Credit, and Development of Executive Abilities.

All three courses will be available in 1949.

There are still a few openings for the 1948 session. Those interested should write without delay to Dr. Carl D. Smith, Executive Director, One Park Avenue, New York, 16, N. Y.

Bank Accused of Giving False Credit Report

The Title Guarantee & Trust Company, a New York banking institution, and certain of its officers, were recently convicted by a jury in the Court of General Sessions, New York County, for allegedly conspiring to issue false statesments concerning the credit status of one William B. Benjamin, a convicted swindler.

The indictment was found under Section 926a of the New York Penal Law, which reads as follows: "§926a. *Circulating false statements concerning financial responsibility of any person, firm or corporation prohibited.*

"Any person who knowingly and wilfully states, delivers or transmits by any means whatever to any person, firm or corporation, any false and untrue statements of a fact concerning the financial responsibility of any person, firm or corporation, with intent that the same shall be acted upon, is guilty of a misdemeanor."

It will be observed that this statute by its terms appears to be equally applicable to the dissemination of oral as well as written misstatements of fact concerning the financial responsibility of another, and the allegedly false statements issued by the defendants in the Title Guarantee & Trust Company case were in fact oral and not written.

There has been no prosecution under the statute, so far as the reports indicate, prior to the conviction in the case under discussion. Nor is there any decision of an Appellate Court interpreting the statute.

Originally Section 926a was part of an article of the Penal Law dealing with libel, but, on the recommendation of the Law Revision Commission of the State of New York, the section was moved from the article of the Penal Law dealing with libel and placed in the article dealing with frauds and cheats.

The original inclusion of the statute in the article dealing with libel raises the question as to whether the intent of the Legislature in enacting the statute was not limited to providing a penalty for publication of false and defamatory information adversely affecting the credit standing of the person or corporation concerning whom untrue statements were issued, and this contention, raised by the defendants, will be presented for determination by the Appellate Court on an appeal from the judgments of conviction.

Commenting upon the case, the President of the Bank is reported to have stated that "the conviction was based upon a section of the law never before used, which has never been construed by the higher courts of the state, and in the opinion of the Bank's counsel was never intended by the Legislature to apply to the interchange of credit information among banking institutions."

It is feared that if the interpretation placed upon the statute by the Trial Judge is sustained on appeal, banks and business houses in New York will be reluctant hereafter to furnish any credit information whatsoever.

(*Continued on Page 37*)

The National Institute of Credit Reports:

1795 students are currently enrolled in approved credit education classes conducted by Institute chapters. (This does not include those enrolled in forums, lecture courses, clinics and other non-credit classes.)

1192 of these students are working for either the Associate or the Fellow award.

132 credit men and women took the first NIC award examinations on June 4th.

Your National Report

In order that you may be more fully informed, this page will be devoted each month to items of general interest, calling attention to some of the objectives, activities and achievements of your National Association.

The names and addresses of your Officers and Directors are listed because they are the men and women whom you have chosen as your representatives. From experience, I know that they are capable, and willing to further your interests to the fullest degree. It is natural that they must rely upon the cooperation of each member, and upon the constructive suggestions which will enhance the value of membership for all of us.

Of particular importance at this time is the program supervised by the Educational Committee under the Chairmanship of Joe Rubanow and the direction of Dr. Carl D. Smith. At this writing there are still openings for 25 more men and women of executive rank in the 1948 session of the Executives' School of Credit and Financial Management. This school opens on August 22nd and continues through September 4th. This is a wonderful opportunity to obtain a broader grasp of Business Administration. Applications should be addressed promptly to Dr. Carl D. Smith, Executive Director, One Park Avenue, New York, 16, N. Y.

In closing I make three suggestions—know your fellow members, know your Officers and Directors and staff, and

KNOW YOUR NATIONAL

Charles E. Fernald

President, National Association of Credit Men

Who Are Your Fellow Members?

The audit of the circulation of our national magazine, Credit and Financial Management under the direction of Gus Klippel, chairman of the National Publications Committee, is now being completed.

Some very interesting information already has been obtained from the audit figures checked so far. Out of 23,124 members audited, 36.870% are shown as manufacturers, 48.625% are wholesalers and jobbers, 10.672% are processors and service organization, and 3.833% represent bank memberships. Another interesting feature of this audit up to date is the fact that 47.691% represent owners, presidents, vice presidents, general managers, branch managers, secretaries and their assistants, and treasurers and their assistants. Thus almost 50% of our members are corporate officers, or in top management. 49.719% are reported as credit executives and 2.557% are reported as auditors, controllers and accountants, while only .033% are reported as credit office assistants.

NACM NEWS

About Credit Leaders ***Association Activities***

Credit Group in Cuba Hopes To Be NACM Affiliate

Thirty years ago, there were but few important concerns in Cuba with a credit department, the organization of which could be considered satisfactory. Naturally, real credit men were scarce and, in the great majority of cases, the responsibility for credit control was held by the principal partner or official, who at the same time had a number of other various functions, such as selling, purchasing, general administration, etc. However, credit reports from mercantile agencies and banks were used to a large extent at that time.

From 1923 to 1928, when conditions just mentioned remained unchanged, an effort was made to organize a Cuban Credit Association, which was specially sponsored by the local offices of American and English concerns in the rubber, electrical appliances and in a few other similar lines. This credit association was entirely unsuccessful and its five-year existence was possible only because of the material support of the several firms associated, which were willing to absorb proportionally the ever increasing expenses.

Toward the end of 1945 a little over a dozen credit men and bank credit information managers got together and decided that a new credit association should be organized. Aims, membership and scope of the new projected organization were going to be substantially different from the one that had existed twenty years before, experience of which was well taken into consideration.

If everything works out satisfactorily, it is very likely that by the end of 1948 the Cuban Credit Men's Association will be affiliated to the NACM, principal executives of which have shown so much sincere interest in helping us in every possible way to get the great benefits of their long and invaluable experience.

Thus, the Cuban Credit Men's Association might become the foundation of a new trade policy of considerable and reciprocal benefit for the United States and Latin American countries, positively encouraged by the strengthening of commerce in the latter, as a result of much better credit control systems developed by the credit men's associations in all outstanding Central and South American nations.

Annual State Conference Is Held In Conn.

Wethersfield, Conn.: The Connecticut Association of Credit Men, which is composed of local Associations in Bridgeport, Hartford, New Haven and Waterbury, met for the annual State conference at the Wethersfield Country Club on June 15th.

The program was divided into four parts, a business session, conference session, afternoon and evening sessions.

The business session was short and consisted largely of registration and election of officers. The conference session included two talks, one by newly elected National Director E. William Lane, on "After the boom—what?" and W. R. Lenga, American Steel & Wire Co., Cleveland, on "Constructive Credit De-

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partment Assistance to Customers."

At luncheon Vice-President Camilo Rodriguez, Davol Rubber Co., Providence, R. I., presided, and the speaker was Dr. Ignacy A. Chodorowski, University of Cracow, Poland, who spoke on the "World of Today."

The afternoon session consisted of golf and movies, and the evening dinner meeting was addressed by Henry H. Heimann, Executive Manager of the National Association of Credit Men, on "Facts or Fiction?"

Membership

MEMBERSHIP PROGRESS REPORT

June 1st to June 30th

CLASS AA	Total May 1	Total June 30	Percent
San Francisco	1234	1252	101.45
Chicago	1935	1954	100.98
Louisville	1199	1204	100.41
CLASS A			
St. Louis	753	780	103.58
Rochester	557	574	103.05
Boston	530	540	101.88
CLASS B			
Atlanta	251	258	102.78
San Diego	361	369	102.21
Milwaukee	352	359	101.98
CLASS C			
Honolulu	196	203	103.57
Des Moines	231	238	103.03
Birmingham	207	213	102.89
CLASS D			
El Paso	121	137	113.22
Washington	137	147	107.29
Albuquerque	108	113	104.62
CLASS E			
Phoenix	70	78	111.42
Little Rock	47	52	110.63
Evansville	53	55	103.83
CLASS F			
Lewiston	20	21	105
Jackson	20	21	105
Quincy	26	27	103.84

Rodriquez, Lane Honored at R. I. Annual Meeting

Providence: Two hundred and twenty-five were in attendance at the Annual Meeting and Testimonial to Camilo Rodriguez, Vice-President and Assistant Treasurer of the Davol Rubber Company, who was elected Vice-President of the National Association of Credit Men; and E. William Lane, Treasurer of the American Screw Company, who was elected a National Director, District One.

David A. Weir, Assistant Executive Manager, National Association of Credit Men, brought greetings from the National Office; and Ernest I. Kilcup, President of the Davol Rubber Company and also past National President, spoke for the local Association.

The meeting was presided over by the President of the Association, Joseph F. Madden. Mr. Rodriguez and Mr. Lane received beautiful gifts and the remainder of the evening was devoted to entertainment.

Rickhoffs Injured While Returning From Cleveland

Waterloo, Iowa: National Director C. C. Rickhoff, Rath Packing Company, Waterloo, is recovering from injuries incurred in a serious motor accident on his way home from the National convention at Cleveland. Two miles east of Stockton, Ill., the driver of a car coming in the opposite direction applied his brakes, one of which locked making his car veer head-on into Mr. Rickhoff's car.

Mrs. Rickhoff suffered a double fracture of the right leg and a cracked spine. She will, unfortunately, be confined to the hospital for some considerable time.

NACM National Committees

For the Year 1948-1949

ADMINISTRATIVE COMMITTEE

Charles E. Fernald, Fernald and Company, 1737 Chestnut St., Philadelphia 3, Pa.

Camilo Rodriguez, Davol Rubber Company, 69 Point St., Providence 3, R. I.

Edward N. Ronnau, Cook Paint & Varnish Co., P.O. Box 389, Kansas City, Mo.

Arthur R. Wilson, Auto Equipment Co., 14th and Lawrence Sts., Denver 17, Colo.

Victor C. Eggerding, Gaylord Container Corp., 111 N. 4th St., St. Louis 2, Mo.

BUDGET COMMITTEE

C. Callaway, Jr., (*Chairman*), Crystal Springs Bleachery, Chickamauga, Ga.

Camilo Rodriguez, Davol Rubber Company, 69 Point Street, Providence 2, R. I.

Bruce R. Tritton, American Stove Company, 1825 E. 4th Street, Cleveland 3, Ohio.

NATIONAL LEGISLATIVE COMMITTEE

Paul J. Viall (*Chairman*), Chattanooga Medicine Co., Chattanooga, Tenn.

LEGISLATIVE DISTRICTS AND COMMITTEE MEMBERS

District I
Maine, Vermont, New Hampshire, Massachusetts, Rhode Island and Connecticut

Clayton M. Mathewson, Cities Service Oil Co., 660 Beacon Street, Boston, Mass.

R. H. Ryan, Pratt & Whitney, Div. Niles-Bement-Pond Co., West Hartford, Conn.

District II
New York and New Jersey

Wm. F. Egelhofer, Henry Glass & Company, 1071 Ave. of the Americas, New York, N. Y.

R. Lynn Galloway, Eastman Kodak Co., 343 State St., Rochester 4, N. Y.

District III
Pennsylvania and Delaware

J. S. Smith, Westinghouse Air Brake Co., Wilmerding, Pa.

John T. Brown, Jr., Hajoca Corporation, 31st & Walnut Streets, Philadelphia 1, Pa.

District IV
Ohio and Michigan

Reed D. Andrew, American Blower Corporation, P.O. Box 58, Roosevelt Park Annex, Detroit 32, Michigan.

E. E. Smith, Owens-Illinois Glass Co., Ohio Bldg., Toledo 1, Ohio.

District V
Maryland, West Virginia, Virgina and North Carolina

Eli Frank, Jr., 111 N. Charles St., Baltimore, Md.

District VI
Georgia, Florida, Alabama, South Carolina, Mississippi and Louisiana

Luther Tatum, Campbell Coal Company, 240 Marietta St., N.W., Atlanta, Ga.

P. S. Kernion, Meyer Brothers Drug Co., Inc., 600 Magazine Street, New Orleans 5, La.

District VII
Kentucky and Tennessee

W. Q. Harned, Federal Chemical Co., 828 Starks Bldg., Louisville 2, Ky.

George W. Wilkins, John Deere Plow Co., 339 S. Front St., Memphis, Tenn.

District VIII
Indiana and Illinois

L. K. Hitchings, Caspers Tin Plate Co., 4100 W. 42nd Place, Chicago, Ill.

Fred J. Hamerin, Lilly Varnish Co., Indianapolis, Ind.

District IX
Missouri, Arkansas and Oklahoma

Harry Miller, Tweedie Footwear Corp'n., Jefferson City, Mo.

Earl C. Hill, Liberty National Bank, Oklahoma City, Okla.

District X
Minnesota, Wisconsin, North Dakota and South Dakota

Joseph N. McBride, Socony Vacuum Oil Co., 606 Vandalia Street, St. Paul 4, Minn.

H. C. Hartman, L. J. Mueller Furnace Co., 3005 W. Oklahoma Ave., Milwaukee 7, Wisconsin.

District XI
Nebraska, Kansas and Iowa

Dewey Melvin, Melvin Lumber Company, 3717—6th Avenue, Des Moines, Iowa.

Arthur B. Dunbar, Dunbar Insurance Corp., 740 Keeline Building, Omaha, Nebraska

District XII
Texas, New Mexico and Arizona

Rudolf C. Zepeda, Valley National Bank, Phoenix, Arizona

R. J. Krohn, Hogan-Allmack Dry Goods Co., P.O. Box 336, Houston, Texas

District XIII
California, Nevada, Utah and Colorado

Fred A. Cates, Arden Farms Company, 1900 West Slauson St., Los Angeles 54, Calif.

Henry G. Hyland, Haas Bros., 3rd and Channel Sts., San Francisco, Calif.

Harold C. Crout, Colorado Fuel & Iron Co., P.O. Box 1920, Denver, Colorado

J. H. Barton, Elec. Supplies Distrib. Co., 435 Second Ave., San Diego, Calif.

District XIV
Washington, Oregon, Idaho, Montana and Wyoming

Frank A. Dudley, General Grocery Co., Inc., 45 S.E. Ash Street, Portland 14, Oregon

V. E. Graff, B. G. Ewing Paper Co., W. 18 International Rightaway, Spokane 11, Washington

F. E. Clyde, The Paraffine Companies, Inc., 2226 Third Avenue, Seattle, Washington

N.A.C.M. MEMBERSHIP EXECUTIVE COMMITTEE

CHAIRMAN

L. D. Duncan, National Distillers Products Corp., 120 Broadway, New York 5, N. Y.

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Eastern Division—Richard Davis, General Elec. Sup. Co., 378 Stuart Street, Boston, Mass.

Central Division—K. Calvin Sommer, The Youngstown Sheet & Tube Co., Stambaugh Bldg., Youngstown, Ohio

Western Division—Harry G. Hyland, Haas Bros., 3rd & Channel Sts., San Francisco, Calif.

MEMBERS

Miss Marjorie Jennings, Atlanta Oak Flooring Co., 920 Glenwood Ave. S.E., Atlanta, Ga.

C. C. Heitmann, Armour & Company, Fort Worth 6, Texas

Miss Bess Havens, First Natl. Bank, Chenango St., Binghamton, N. Y.

Les Fishbeck, Coast Packing Co., 3275 E. Vernon St., Los Angeles 11, Calif.

HONORARY VICE-CHAIRMEN

Eastern Division—Camilo Rodriguez, Davol Rubber Company, 69 Point St., Providence, 2, R. I.

Central Division—Edward N. Ronnau, Cook Paint & Varnish Co., P.O. Box 389, Kansas City, Mo.

Western Division—Arthur R. Wilson, Auto Equipment Co., 14th & Lawrence Sts., Denver 17, Colo.

DISTRICT SUPERVISION

All N.A.C.M. Directors will serve as Chairmen of special District Membership Promotional Committees, and the personnel of their Committee will be made up of all Chairmen of Membership Committees of all local Associations within their district.

Thus, the Chairman of the Membership Committee of each and every local Association throughout the country becomes, in effect, a member of our National Membership Promotional Committee and activity.

NATIONAL PUBLICATIONS COMMITTEE

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William Lenga, American Steel & Wire Co., Cleveland, Ohio

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Ivan L. Hillman, Dravo Corporation, 300 Penn Avenue, Pittsburgh, Pa.

Frank C. Knapp, Endicott Johnson Corp., Endicott, N. Y.

Paul W. Cutshall, South-Western Publishing Co., 201 W. 4th St., Cincinnati, Ohio

M. C. Ulmer, L .H. Butcher Co., San Francisco, Calif.

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Fred J. Flom, Detroit Edison Co., 2000 Third Ave., Detroit 26, Mich.

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Victor C. Eggerding (*Chairman*), Gaylord Container Corp., 111 North 4th St., St. Louis 2, Mo.

E. William Lane, American Screw Co., 21 Stevens St., Providence, R. I.

Lawrence Holzman, San Diego Wholesale Credit Men's Assn., 524 B St., San Diego, Calif.

Harry W. Voss, Cincinnati Assn. of Credit Men, 722–25 Temple Bar Bldg., Cincinnati, Ohio

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D. K. Porter, Inter. Mt. Assn. of Credit Men, 1008 Walker Bk. Bldg., Salt Lake City, Utah

Mortimer J. Davis, New York Credit Men's Adjustment Bureau, 354 Fourth Ave., New York 10, N. Y.

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J. M. Eaton, American Mutual Alliance, 919 N. Michigan Avenue, Chicago 11, Ill.

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Not yet completed

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Kathryn Sire, Edgar A. Brown Company, Inc., 4107 Carnegie Ave., Cleveland 3, Ohio

Opal Stemmer, Brittain Brothers, Inc., 800 N. Broadway, Oklahoma City 2, Okla.

Muriel Williams, Todd Witte Dry Goods Co., 2218 First Ave. No. Birmingham, Ala.

Marie Ferguson (Secretary), National Association of Credit Men, One Park Ave., New York 16, N. Y.

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Henry Hugly, Johnson & Johnson International, New Brunswick, N. J.

F. LeJarza Saenz, Mallinckrodt Chemical Works, New York, N. Y.

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A. H. Mader, American Chicle Co., Long Island City, N. Y.

P. P. McGovern, Manufacturers Trust, New York, N. Y.

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Arthur Partridge, Westinghouse Electric International Co., New York, N. Y.

Fred R. Pinter, Corneliussen & Stakgold, Inc., New York, N. Y.
A. E. Reed, The W. S. Tyler Co., Cleveland, Ohio
C. A. Richards, Interchemical Corporation, New York, N. Y.
G. McK. Roberts, International General Elec. Co., New York, N. Y.
Camilo Rodriguez, Davol Rubber Co., Providence, R. I.
Einer Sather, Colt's Mfg. Co., Hartford, Conn.
H. J. Sheehan, Norton Company, New York, N. Y.
R. C. Thompson, The Electric Auto-Lite Co., New York, N. Y.
Rudolph Vogel, Pillsbury Mills, Inc., New York, N. Y.
Wilbert Ward, National City Bank of New York, New York, N. Y.
R. A. Wood, American Paper Exports, Inc., New York, N. Y.

BUREAU COUNCIL

A. H. Ahlers, Owens-Illinois Glass Co., Toledo, Ohio
R. M. Binney, First National Bank of Boston, Boston, Mass.
W. R. Dunn, General Foods Corp., New York, N. Y.
John Fischer, Bank of New York, New York, N. Y.
R. P. Furey, Central Hanover Bank & Trust Co., New York, N. Y.
G. A. Hankins, Goodyear Tire & Rubber Export Co., Akron, Ohio
J. J. Kelly, Jr., Bank of Manhattan Co., New York, N. Y.
E. B. Mackenzie, Corn Exchange Bank Trust Co., New York, N. Y.
S. F. Majestic, Chemical Bank & Trust Co., New York, N. Y.
G. J. Messemer, Irving Trust Co., New York, N. Y.
A. W. Peck, The Stanley Works, New York, N. Y.
A. J. Peltier, Industrial Brownhoist Corp., Bay City, Mich.
S. C. Olson, Montgomery Ward & Co., Chicago, Ill.
J. A. Stahl, Bankers Trust Company, New York, N. Y.
J. L. Thompson, Yale & Towne Mfg. Co., Stamford, Conn.
E. J. Toner, Philadelphia National Bank, Philadelphia, Pa.
B. W. Unge, City National Bank & Trust Co., Kansas City, Mo.
R. T. White, Cleveland Trust Co., Cleveland, Ohio

Duluth Secretary Takes Long Leave

Duluth: E. G. Robie, Secretary of the Duluth-Superior District Credit Association, has been granted a leave of absence of two months. During his absence the officers of the Association will act in an advisory capacity to Mr. Robie's secretary.

As a result of his leave Mr. Robie requests us to state that only emergency matters can be attended to, and that there may be delay in answering correspondence.

Foreign Credit Men See Way To Pay Exporters

During the regular monthly round table conference of the Foreign Credit Interchange Bureau of the National Association of Credit Men, the question was raised concerning the use of Marshall Plan dollars spent in Latin-American countries which are now delinquent in their payment of dollar debts to United States Exporters.

A suggestion was put forth in the form of a resolution which might be a solution to this inequitable condition. The resolution follows:

"At the Round Table Conference of June 2, 1948, sponsored by the Foreign Credit Interchange Bureau, National Association of Credit Men, New York, it was resolved that:

a) The attention of our foreign customers and their governments should be drawn to the urgent need of re-establishment of sound payment terms, so that international trade may continue to flow freely from the United States to foreign countries and vice versa.

b) To help bring about this condition it is the recommendation of this meeting that all foreign countries should establish a yearly budget to balance their imports with their available exchange and tie their import licenses to dollar exchange allocations.

c) Together with the issuing of new import licenses, arrangements should be made for the liquidation of all old collections, if only on a pro rata basis in an orderly commercial fashion.

Use Local Currency

d) In this connection, it is suggested that all off-shore purchases to be made under the Economic Cooperation Administration plan (ECA) be paid for out of funds deposited in Local Currency by the importers and held for dollar transfer. The equivalent dollar amounts should be applied for payment of American exports, in liquidation of overdue collections from these markets.

e) If foreign countries impose unilateral restrictions whereby their Nationals are prevented from fulfilling bona fide and previously contracted obligations, our Government is requested to make urgent representation, through the proper channels, to those countries, to bring import regulations into accord with long established and fair foreign trade practice.

"We wish to emphasize to all foreign accounts the high value which we attach to their custom and good will and these recommendations are made entirely in the interest of assuring the undisturbed continuance of our long standing and pleasant relations with them."

Food Business Failures Well Below 1939

The number of business failures in the food industry in 1947 amounted to only 17.75% of that in 1939 according to a survey recently concluded by the National Food Manufacturers Credit Division of the National Association of Credit Men, and released by W. R. Dunn, General Credit Manager of General Foods Corporation, Vice-Chairman of the Group.

Forty-seven of the country's largest manufacturers of food, soaps and allied products contributed to the survey.

The amount of gross bad debt claims compared to customer gross sales was .05%. This figure is arrived at by taking the total balances due from customers who have gone into bankruptcy and from other doubtful accounts. This is before any part of the claims has been written off as uncollectible bad debt loss.

The net bad debt los compared to customer gross sales was .01%. The net bad debt loss is the sum of claims charged off less dividends received on accounts charged off in previous years.

Dry Cleaning Group Formed in New York

New York: Many newcomers in the dry cleaning and laundry businesses are in hot financial water these days. Business failures in these lines continue to rise as warborn concerns, first to feel the pinch when trade constricts its wartime expansions, go into bankruptcy. As high as 15% of all U. S. commercial service failures in the first quarter of this year were in these lines. This failure rate is an acceleration of last year's failure statistics inasmuch as first quarter failures in 1948 totalled 13 in the cleaning and dyeing business, compared with only 18 failures for entire 1947, while first quarter failures in the laundry business totalled 12, compared with only 16 for all of last year. First quarter 1948 liabilities were \$497,000 compared with 1947 totals for the year of \$653,000.

A number of New York City wholesale dry cleaning and laundry supply establishments have formed a credit service group, organized for them by the New York Credit Group Service, Inc., NYCMA affiliate. Members of the group will receive flash reports on sour accounts and will be kept posted on all trends and developments in their businesses.

Bridgeport Holds Clambake June 22

Bridgeport: The Bridgeport Association of Credit Men held a clam bake on June 22nd at Aichner's Grove, Trumbull, Conn.

Uncle Sam's Payroll

Department or Agency	April	May	Increase	Decrease
Executive Departments (except National Military Establishment)				
Agriculture	75,351	79,235	3,884	.....
Commerce	40,146	40,370	224	.....
Interior	49,776	51,690	1,914	.....
Justice	26,270	26,272	2	.....
Labor	4,578	4,532	.....	46
Post Office	488,059	490,596	2,537	.....
State	21,876	21,890	14	.....
Treasury	90,117	89,644	.....	473
Executive Office of the President				
White House Office	222	221	.....	1
Bureau of the Budget	612	593	.....	19
Executive Mansion and Grounds	91	96	5	.....
National Security Council[1]	18	19	1	.....
National Security Resources Board	150	176	26	.....
Council of Economic Advisers	44	45	1	.....
Office of Government Reports	18	17	.....	1
Emergency War Agencies				
Office of Defense Transportation	47	50	3	.....
Postwar Agencies				
Economic Cooperation Admin.	113	273	160	.....
Office of the Housing Expediter	4,554	4,591	37	.....
Philippine Alien Property Admin.	159	134	.....	25
Philippine War Damage Commission	784	830	46	.....
War Assets Administration	24,163	22,663	.....	1,500
Independent Agencies				
American Battle Monuments Comm.	114	117	3	.....
Atomic Energy Commission	4,990	5,031	41	.....
Civil Aeronautics Board	598	622	24	.....
Civil Service Commission	4,096	4,125	29	.....
Export-Import Bank of Washington	118	123	5	.....
Federal Communications Commission	1,361	1,366	5	.....
Federal Deposit Insurance Corporation	1,122	1,114	.....	8
Fed. Mediation and Conciliation Ser.	369	378	9	.....
Federal Power Commission	803	792	.....	11
Federal Security Agency[2]	34,660	34,633	.....	27
Federal Trade Commission	557	554	.....	3
Federal Works Agency	22,302	22,409	107	.....
General Accounting Office	9,262	9,232	.....	30
Government Printing Office	7,223	7,114	.....	109
Housing and Home Finance Agency	11,723	11,753	30	.....
Indian Claims Commission	11	11	.....	.....
Interstate Commerce Commission	2,250	2,292	42	.....
Maritime Commission	7,261	7,424	163	.....
Nat. Advisory Comm. for Aeronautics	6,204	6,169	.....	35
National Archives	344	344	.....	.....
National Capital Housing Authority	288	286	.....	2
Nat. Capital Park and Planning Comm.	23	21	.....	2
National Gallery of Art	319	317	.....	2
National Labor Relations Board	1,610	1,788	178	.....
National Mediation Board	115	111	.....	4
Office of Selective Service Records	720	737	17	.....
Panama Canal	24,255	24,002	.....	253
Railroad Retirement Board	2,755	2,656	.....	99
Reconstruction Finance Corporation	5,634	5,567	.....	67
Securities and Exchange Commission	1,111	1,111	.....	.....
Smithsonian Institution	509	513	4	.....
Tariff Commission	221	218	.....	3
Tax Court of the United States	126	126	.....	.....
Tennessee Valley Authority	14,697	15,054	357	.....
Veterans' Administration	201,910	202,183	273	.....
Total, excl. National Military Estab.	1,196,809	1,204,230	10,141	2,720
Net increase, excluding National Military Establishment	....	....	7,421	
National Military Establishment				
Office of Secretary of Defense	827	875	48	.....
Department of the Army				
Inside continental United States	263,770	268,902	5,132	.....
Outside continental United States	130,780	130,071	.....	709
Department of the Air Force	117,305	118,852	1,547	.....
Department of the Navy	340,929	343,355	2,426	.....
Total, including Nat. Military Estab.	2,050,420	2,066,285	19,294	3,429
Net increase	....	....	15,865	

[1] Exclusive of personnel of the Central Intelligence Agency.
[2] Includes 1,197 employees of Howard University and 102 employees of Columbia Institution for the Deaf.

"Tell my wife I don't know any four-letter word for an African water buffalo!"

Youngstown Meeting

Youngstown: The annual Spring installation meeting of the Youngstown Association of Credit Men was designated "Member get to know member" meeting. The affair was very well attended and accomplished the purpose for which it was planned. The reception committee saw to it that everyone present met everyone else.

Bank Accused

(Continued from Page 31)

The officers of the Title Guarantee & Trust Company who disseminated the information upon which the conviction was based, reported that their dealings with the said Benjamin had been satisfactory. It was contended by the State that the favorable report was motivated by a desire of the Bank to protect a loan theretofore made to Benjamin, and that the Bank, knowing that Benjamin was not worthy of credit, concealed their true opinion of his responsibility for ulterior purposes.

An interesting side-light on the question arises from the fact that Section 1293b of the New York Penal Law makes it a misdemeanor to knowingly issue a false financial statement *in writing* with intent that it shall be relied upon respecting the financial condition or means or ability to pay of another. In enacting 926a, did the Legislature intend to supplement the provisions of 1293b by eliminating the safeguard contained in the latter section that a conviction could be had only upon proof that the false statement was issued in writing?

It seems improbable that the Legislature ever intended that Section 926a should be applicable to a state of facts such as that upon which these convictions were obtained.

More Election News

In the June issue, it was stated that the new Vice-President of the Louisville Association of Credit Men was Ballard & Ballard Co. That could hardly be described as an accurate statement.

Although Ballard & Ballard Co. has contributed many officers to the Louisville Association, we should have mentioned that its representative, William H. Watts, was the new Vice-President, not the company itself. So we apologise to Mr. Watts for sidestepping him, and hereby give him, in our small way, the recognition he deserves.

Incidentally, the new President of the Louisville Association, Herman M. Kessler, who is President of the Standard Printing Co., was until a few years ago an employe of the Association which he now heads.

Memphis

President—J. O. Bratton, S. C. Toof & Co.
1st Vice-President—W. W. Halstead, D. Canale & Co.
2nd Vice-President—Ned M. French, McDonald Bros.
Treasurer—Joe M. Chiles, Clayton-Brown Co.

Cleveland

President—A. E. Fletcher, Standard Oil Cimpany of Ohio.
1st Vice-President—W. P. Chamberlain, Cleveland-Cliffs Iron Co.
2nd Vice-President—R. O. Wendling, National City Bank of Cleveland
Treasurer—W. N. Lawson, Medusa Portland Cement Co.
Councillor—E. H. Davies, Cleveland Electric Illumination Co.

Baltimore

President—Stanley B. Trott
1st Vice-President—William H. Marshall
2nd Vice-President—J. Hammond Geis
Treasurer—J. Walter Jackson

Providence

(Rhode Island Association of Credit Men)
President—Joseph F. Madden, Nicholson File Co.
1st Vice-President—Emil Doudera, American Silk Spinning Co.
2nd Vice-President—George W. Holt, Jr., Providence National Bank
Treasurer—Warren E. Tillinghast, Providence Paper Co.
Secretary—Rose A. Savage, The Foxon Co.

Fargo—Moorhead

President—E. O. Berg, Fairmont Foods Co.
Vice-President—C. H. Abraham, Dakota Tractor & Equipment Co.
Secretary-Treasurer—A. A. Berg, Myrha Equipment Co.
Councillor—J. G. Painter, Crane Co. of Minnesota.

St. Paul

President—Clement P. Reis, American National Bank
Vice-President—Roy J. Wendel, Gordon & Ferguson, Inc.
Councillor—J. N. McBride, Socony-Vacuum Oil Co.

San Francisco

President—O. C. Levo, Hills Bros. Coffee Co.
1st Vice-President—M. C. Ulmer, Zellerbach Paper Co.
2nd Vice-President—J. A. Walker, Standard Oil Co. of Calif.
Treasurer—A. I. Hermann, Union Lumber Co.

Triple Cities

(Binghamton, Johnson City, Endicott, N. Y.)
President—J. Boyd Griffiths, Binghamton Slag Roofing Co.
1st Vice-President—Lawrence A. Doyle, Fair Store.
2nd Vice-President—Fred Jack, Whipple's Automotive Equipment, Inc.
Treasurer—James W. Rolfe, Sweet's Foundry.
Secretary—Lucile Mielke, Mielke ABC Service Co.
Councillor—David J. Morgan, Northrup Building Credits Inc.

Grand Rapids

President—J. Howard Lee, Hayes Manufacturing Corp.
1st Vice-President—John Ovlee, Metal Office Furniture Co.
2nd Vice-President—Roy Seeber, Wheeler-Van Label Co.
Treasurer—Harry C. Lundberg, Michigan National Bank.

Springfield, Mass.

(Western Massachusetts Association of Credit Men)
President—D. E. Davis, F. B. Mallory Co.
1st Vice-President—Walter F. Hinckley, H. L. Handy Co.
2nd Vice-President—G. F. Wingard, Monsanto Chemical Co.
Treasurer—H. W. Anger, Standard Electric Time Co.

Youngstown

President—M. F. Ogram, General Fireproofing Co.
Vice-President—E. W. Wilhelmy, American Welding & Manufacturing Co.
Treasurer—E. E. Opre, Mahoning National Bank

New York: Marian R. McSherry, Schenley Distillers Corp., has been elected new President of the New York Credit Women's Group. Other officers are: Libbie Sternhart, Widder Bros., Vice-President; Dorothy Kurlander, Touraine Co., Treasurer, and Vera North, Worcester Salt Co., Secretary.

Women's News

San Francisco: Members of the San Francisco Credit Women's Group are being heaped with honors for in the recent re-organization of the National Institute of Credit chapter which was abandoned during the war period two of its members, Miss Mary Avila of the Wine Growers Guild was elected Secretary and Miss Hildegard Jordan of Eng-Skell was elected its Librarian.

When its two delegates recently attended the National Convention at Cleveland, Miss Mary King of Schlage Lock Company, retiring president and Member of the Board, was elected Vice-President of the Hardware Group.

Miss Helen Robinson, newly installed president, receives honorable mention for organizing her own industry group known as the Printers' Supplies; was elected its Chairman and brought most of these members into membership with the Credit Managers Association.

Los Angeles: Adela Rogers St. Johns, writer for MGM and the Los Angeles *Examiner*, was the guest speaker at the annual June Breakfast of the Los Angeles Credit Women's Group on June 6th. Florence Fall, the group's delegate to the convention, gave a report on the proceedings there.

Birmingham: On Tuesday evening, May 18, the new officers of the Birmingham Credit Women's Club were installed. New officers of the Club are: Anne Barker Plummer, President; Helen Smith, 1st Vice-President; Rubye Ford, 2nd Vice-President; Virginia Johnson, Recording Secretary; Marie Cardwell, Corresponding Secretary, and Nell Parsons, Treasurer.

On Friday, May 28, the Allied Industries Group of the Alabama Association of Credit Executives entertained the Credit Women at their weekly meeting in the Jefferson Room, Thomas Jefferson Hotel, with seventy-five present. It was an opportunity for the women to observe the business procedure followed by the Credit Club in their interchange of credit experiences.

Tacoma: The members of the Tacoma Credit Women's Club recently entertained their "bosses" at a "night in Hawaii". Island music entertained the guests during cocktails and dinner and flowers typical of Hawaii decorated the banquet room.

Dayton

President—Elwood Lobaugh, Standard Register Co.
1st Vice-President—Robert Ladd, Third National Bank & Trust Co.
2nd Vice-President—Thomas M. Simpson, Chrysler Corp., Airtemp Div.
Treasurer—Lyndon Francis, Standard Radio & Electronic Products Co.
Councillor—Paul H. Harn, Lowe Brothers Company.

St. Paul: The Minneapolis and St. Paul Credit Women's Groups met at Lowel Inn, Stillwater, Conn., on June 5th to celebrate the annual meeting of the Minneapolis group. The St. Paul group will hold their annual picnic at the home of Mrs. Edna Le May Isaacs at Dellwood.

Detroit: Mabel F. Lane, of the Fort Shelby Hotel, is the new President of the Detroit Credit Women's Club. Other officers are Ione Gardner, Fife Electric Supply Co., Vice-President; Virginia Doyle, Michigan Chrome & Chemical Co., Secretary, and Helen Allan, Allan Uniform Co., Treasurer.

K. T. Burke, Globe Paper Co., has been elected to serve on the board of directors of the Detroit Association of Credit Men.

Annual Outing Combines Business and Pleasure

Pittsburgh: Four of the Credit Groups active in the Credit Association of Western Pennsylvania, food products, food supply and fixtures, auto parts and radio & electric appliances, held their annual outing on June 21st.

The trend of the times being what it is, the regular routine business meeting was held, after which various games were played.

Golf Stag Held at Toledo

Toledo: The Toledo Association of Credit Men will hold their annual golf stag party at the Chippewa Country Club on July 20th. Tee-off time is set for 12:30 and dinner will be served at 7:00.

Pittsburgh: The Credit Association of Western Pennsylvania's 52nd anniversary was observed on June 17th and took the form of a golf outing.

Positions Wanted

Executive presently employed by national manufacturer, desires change. Over 28 years experience in all phases of office management, Credit and Collection, Accounts Receivable & Payable, Personnel Administration and Training Programs, Salary Surveys, Budgets, Systems, Procedures and Flow Charts. Capable Organizer. Married—age 51—excellent health —Go anywhere. Salary $9,000—Justified by background, experience and ability. Box J-1, Credit and Financial Management.

Credit Manager-Office Manager-Accountant, unusual experience covering most of the United States, while serving large organizations over a period of some twenty years. Familiar with the retail, wholesale and manufacturing field. Accustomed to heavy responsibilities. Progressive, strong coordinator. Salary commensurate with ability. Prime factor—permanency. Resume, references, photo on request. Locate anywhere. Box J-2 Credit and Financial Management.

Vesty Gates Finishes His Discourse on Problem Parents

(Continued from Page 10)

that, your Uncle Vesty didn't do his 'vestigating as thoroughly as he should, and no report or statement was obtained on Location, Inc., the leaseholding company."

"So?"

"Four months later slowness began to be reported. In six months it had become pretty bad. We had stopped shipping, but hadn't been successful in collecting our outstanding account. We placed it for collection, but it was too late."

"But with a statement like that, what could have happened in so short a time?"

"Statements of assets and liabilities filed with the voluntary petition in bankruptcy give you the answer, I think." V.G. took them, and ringed the significant items.

Suave, Inc.

Cash	$ 3,000	Accounts Payable	$ 85,000
Receivables	4,000	Accruals	4,000
Inventory	40,000	Loans Payable	43,000
Supplies	6,500	Sales Tax and Penalty	26,000
Loans to Location, Inc.	**75,000**		
Goodwill	60,000		
	$188,500		$158,000

Location, Inc.

Cash	$ 3,000	Due Bank	$ 28,000
		Due Store Fixtures, Inc.	38,000
Fixtures	150,000	Cash-in Register Co.	8,000
		Due Suave, Inc.	**75,000**
Stock in Suave, Inc.	**65,000**	Others	10,000
	$218.000		$159,000

"Suave," you see, was not an independent company. Location, Inc., owned the capital stock. A report and statement on Location would have revealed that $65,000 of its capital was invested in the stock of Suave, Inc., leaving only $60,000 to support the heavy purchase of fixtures."

"And that the combined set-up," Alice contributed in order to confirm her understanding, "represented a total investment of only $125,000 instead of $190,000 to support the merchandise operations and the expensive fixtures."

"Right! Well, you can guess now what happened shortly after that impressive statement."

"Inter-company loans!"

"Location, Inc., began to be hard-pressed to meet its commitments on the fixtures accounts, the rental on the lease, and the bank loan. Suave increased its rental payments to the parent (pre-O.P.A.)," Vesty interpolated, "and also began making loans to the parent company. The debacle followed because, of course, the total enterprise was undercapitalized and overconceived.

"It goes back," he continued, "to the same conclusion: *You have to have the whole picture.* In this case we had the statement of the subsidiary, but not that of the parent. But the point is that it was only half the total picture. Reports and a statement on Location, Inc., would have revealed the parent-subsidiary relationship and the undercapitalization. Location's financial statement would have been the warning thundercloud on the horizon of a deceptively sunny landscape, and Suave's pretty financial picture would not have been so reassuring to me."

Alice tapped her pencil meditatively. Vesty waited. "You know, Mr. Gates, I've changed my mind! I'm not going to ask for a financial statement just on Pretty Girl, Inc., I'm going to try for a picture of the whole family, and I don't mean a group picture. I want papa and

each of his children—*separately*. AND I shall scrutinize those receivable and payable items like Hawkshaw himself, to discover whether they might conceal some inter-company finagling. And I intend asking them some pertinent questions."

"Just so they are not impertinent," he grunted, turning back to his own work. "Keep your tact intact."

Planning for Profit

(*Continued from Page 23*)

source of the best credit information, and certainly he must not be afraid to convey his opinions regarding the future. He must convince the budget man that he cannot prepare a better budget faster and easier without consultation with the credit man.

Budget Is Not Authority

The preparation of a budget is only the beginning of budgetary control. The budget, once prepared, is a plan of action. It is a tool for the executive to use to do his job, to carry out his responsibilities better than he could without a budget. But a budget is not the authority to do anything. Unfortunately the budget, in some companies, becomes the last word, the authority to do everything and anything, even to having each purchase requisition checked to make sure the item to be bought is 'in the budget.' No plan is changed, no expense altered.

This kind of budgetary control robs the executives of initiative and deprives them of their proper authority to carry out their responsibilities. Unforeseen circumstances might come up which command changes in plans. A capable and alert executive will, of course, want to change his plans, and hence he should not be expected to live solely by the budget. He should have every opportunity to exercise his delegated authority.

If a budget is to help executives, it must not tie them down. Changing business conditions must be recognized by changes in plans. These changes might have to be made immediately; sometimes so fast that there is no time to effect a formal revision of the budget.

The important thing to remember is that changes in plans should result in better final results than previously budgeted, or, in the case of an adverse business condition, the final results should be better than if no budget plan were in effect.

Budget plans can—and many do—work just this way. They do when for one thing, the philosophy is 'Beat the Budget' rather than 'Meet the Budget.'

Provide Comparative Statements

The mechanics of budgetary control provide comparative statements. Actual performance is compared to the budget for each activity. The credit man should study monthly statements showing actual expenses compared with his budgets. He should know the reason for spending more than budgeted and should attempt to continue savings. If bad debt percentages and collections differ from forecasts, he should ascertain the causes, and, if of sufficient amount, discuss the differences with the financial executive.

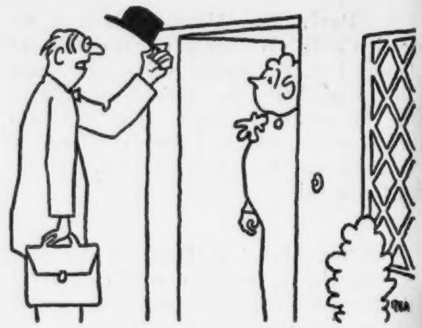
Of course, a budget plan is not a panacea. But it does promote

Forward Thinking and Planning
Coordination of Activities
Control of Operations and
Cooperation

Benefits of Cooperation

I cannot stress too much the benefits from cooperation. All the organization charts and organization manuals, all standard procedure instructions, all policy manuals, are of much less value than cooperation. By having all executives and department heads collaborate in budget preparation as I have outlined, it is inevitable that cooperation will be promoted among men in the sales, production, engineering, financial and accounting divisions as well as the credit and collection departments.

You may very well ask: "Should not a credit man do the things you mentioned even if a company has no budget plan?" "Aren't you defining some of the duties of a credit man rather than describing a budget procedure?" My answer to both questions is, yes. I will go still further and say that no budget plan would be required, provided each of the executives—Sales Manager, Manufacturing Director, Treasurer, etc.—would do his individual job perfectly and if the President would coordinate the work of his several division heads perfectly. But it is not easy to do these things. As a matter of fact, it is very easy to forget to do some of them. What a budget plan does is to force each executive, including the President, to do certain parts of his job on a basis of a schedule and at adequate intervals — not haphazardly and spasmodically. A budget plan as a tool of management helps men make their jobs easier.



"Good morning, Mrs. Wilgus. Is the lapsed policy at home?"

If I were now asked to speak to a group on the subject, "The Relation of the Credit Function to Sales and Finance," I could present this same paper, with some small modifications. This fact illustrates the relationship between budgeting and organization. An organization chart and manual defines duties, but so does a budget plan—in another way of course. But it has this advantage over a manual; it is compelling and dynamic; it *makes* an organization perform. It makes each man in an organization do what the manual says he should do.

Because I am not a credit man, my views of course are those of an outsider, but an outsider with twenty years of professional service in many and varied manufacturing businesses. As such, I hope I have contributed something that may be useful to you.